

# **Exhibit 13**

## **Part I of II**

## 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.

PETER S. STAMOS

-----X  
 In Re:

BERNARD L. MADOFF,

Debtor.  
 -----X

TRANSCRIPT of testimony as taken by and before  
 NANCY C. BENDISH and MONIQUE VOUTHOURIS, Certified  
 Court Reporters, CRRs and Notaries Public of the  
 States of New York and New Jersey, at the offices of  
 Baker & Hostetler, 45 Rockefeller Plaza, New York,  
 New York on Thursday, August 19, 2010, commencing at  
 10:17 a.m.

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## 1   A P P E A R A N C E S:

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9           For Irving Picard, Trustee

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13           For the Witness

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## 11   ALSO PRESENT:

11

12           JARED A. KANOVER, ESQ., Sterling Stamos  
13           DANIEL McCLUTCHY, Videographer

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10:17:23 1 THE VIDEOGRAPHER: Good morning. My  
10:17:24 2 name is Daniel McClutchy of Bendish Reporting. The  
10:17:29 3 date today is August 19th, 2010 and the time is  
10:17:33 4 approximately 10:18 a.m. This deposition is being  
10:17:38 5 held at the office of Baker & Hostetler located at  
10:17:42 6 45 Rockefeller Plaza in New York, New York.  
10:17:46 7 The caption of this case is Securities Investor  
10:17:51 8 Protection Corporation versus Bernard L. Madoff  
10:17:56 9 Securities LLC in the United States Bankruptcy  
10:17:59 10 Court, Southern District of New York, Case Number  
10:18:02 11 0801789(BRL). The name of the witness is Peter  
10:18:09 12 Stamos.

10:18:09 13 At this time the attorneys will  
10:18:11 14 identify themselves and the parties they represent.  
10:18:14 15 After which our court reporter, Nancy Bendish, will  
10:18:18 16 swear in the witness.

10:18:18 17 MR. BOHORQUEZ: Fernando Bohorquez,  
10:18:20 18 Baker Hostetler on behalf of the Trustee, Irving  
10:18:24 19 Picard. With me here today are Kathryn Zunno and  
10:18:27 20 Tom Lucchesi.

10:18:28 21 MR. GOUDISS: Alan Goudiss and Tammy  
10:18:29 22 Bieber of Shearman & Sterling LLP for the witness.

10:18:29 23 MR. KANOVER: Jared Kanover of  
10:18:45 24 Sterling Stamos, on behalf of...

10:18:45 25

**PETER S. STAMOS - August 19, 2010**

10:18:48 1 P E T E R S. S T A M O S, sworn.

10:18:54 2 MR. BOHORQUEZ: Before we get  
10:18:55 3 started, I have to read something into the record,  
10:18:57 4 which is a portion of the Protective Order which was  
10:19:00 5 previously provided to your counsel, Mr. Stamos.  
10:19:03 6 This is paragraph 12 of the Protective Order entered  
10:19:06 7 in this case, and it reads as follows:

10:19:09 8 "Any court reporter who transcribes  
10:19:11 9 testimony in this action at a deposition or a  
10:19:13 10 bankruptcy Rule 2004 examination shall be provided a  
10:19:18 11 copy of this order and shall thereafter ensure that  
10:19:22 12 all confidential material is and shall remain  
10:19:25 13 confidential and shall not be disclosed except as  
10:19:28 14 provided under this order and that copies of any  
10:19:31 15 transcript, reporter's notes or any other  
10:19:34 16 transcription records of any such testimony shall be  
10:19:37 17 retained in absolute confidentiality and safekeeping  
10:19:40 18 by such court reporter or shall be delivered to an  
10:19:44 19 attorney of record or filed with the court."

10:19:44 20

10:19:44 21 EXAMINATION BY MR. BOHORQUEZ:

10:19:50 22 Q. Now that we've got that out of the  
10:19:53 23 way. Good morning, Mr. Stamos. Thank you again for  
10:19:57 24 coming today.

10:19:57 25 A. Good morning.

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10:19:58 1 Q. As you know, my name is Fernando  
10:20:01 2 Bohorquez. I'm an attorney here at Baker Hostetler.  
10:20:01 3 I represent the Trustee, Irving Picard.

10:20:03 4 You are here today pursuant to a  
10:20:06 5 Bankruptcy Rule 2004 examination, and the purpose of  
10:20:09 6 today's examination is to ask you for information  
10:20:12 7 relating to certain events surrounding the Madoff  
10:20:15 8 event. Do you understand that?

10:20:19 9 A. Yes.

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Q. So, Mr. Stamos, I understand that you

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went to -- you got your BA from Stanford; is that

10:23:33 5

right?

10:23:33 6

A. Yes.

10:23:33 7

Q. And when was that?

10:23:35 8

A. I received my BA in 1980.

10:23:38 9

Q. And what did you receive your BA in?

10:23:41 10

A. In political science and economics.

10:23:44 11

Q. And after Stanford, did you receive a

10:23:48 12

JD?

10:23:49 13

A. Yes.

10:23:49 14

Q. That was from Harvard?

10:23:51 15

A. Yes.

10:23:51 16

Q. When was that?

10:23:52 17

A. Received my JD in 1985.

10:23:55 18

Q. Other than Stanford and Harvard, have

10:23:59 19

you received any other degrees from any higher

10:24:03 20

education?

10:24:03 21

A. Yes.

10:24:04 22

Q. What is that?

10:24:05 23

A. A D-Phil from Oxford University.

10:24:08 24

Q. What's a D-Phil?

10:24:10 25

A. Doctor of Philosophy, in politics.

**PETER S. STAMOS - August 19, 2010**

10:24:13 1 Q. When did you receive a Doctor of  
10:24:15 2 Philosophy in politics from Oxford?

10:24:15 3 A. I don't recall the exact year. I  
10:24:17 4 think it was 1987 or '88 or '89, in that time frame,  
10:24:20 5 but we can provide you with that. It's on my  
10:24:23 6 resume.

10:24:24 7 Q. Thank you.  
10:24:27 8 What was your first job after  
10:24:29 9 receiving your JD from Harvard?

10:24:33 10 A. Upon graduation from Harvard I joined  
10:24:36 11 McKenzie & Company.

10:24:38 12 Q. How long were you at McKenzie?

10:24:40 13 A. Over the calendar years 1985 to 1990,  
10:24:48 14 but I took a leave of absence to complete my  
10:24:52 15 doctoral thesis and submit my thesis at Oxford.

10:24:56 16 Q. And how long did you take a leave of  
10:24:57 17 absence for?

10:24:59 18 A. I believe it was approximately nine  
10:25:01 19 to 12 months. I don't recall exactly.

10:25:06 20 Q. What was your position at McKenzie  
10:25:09 21 when you started?

10:25:10 22 A. Started as an associate.

10:25:11 23 Q. Did that position change over time?

10:25:14 24 A. Yes.

10:25:14 25 Q. What did it change to?

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10:25:16 1 A. Engagement manager.

10:25:20 2 Q. Were there any other positions -- did  
10:25:22 3 you hold any other positions at McKenzie other than  
10:25:25 4 associate and engagement manager?

10:25:27 5 A. Could you be more specific about  
10:25:28 6 positions?

10:25:29 7 Q. Well, did you have a title at  
10:25:31 8 McKenzie?

10:25:33 9 A. You know, I don't recall how McKenzie  
10:25:35 10 keeps its records of titles. I believe, to the best  
10:25:39 11 of my recollection, that McKenzie refers to, your  
10:25:42 12 official title is either an associate, a principal  
10:25:44 13 or a director, but that they have different roles  
10:25:48 14 that you play and so you're referred to as, for  
10:25:52 15 example, an engagement manager after two or three  
10:25:54 16 years.

10:25:55 17 Q. Were you ever a principal or director  
10:25:57 18 of McKenzie?

10:25:58 19 A. No.

10:25:59 20 Q. When you started at McKenzie in 1985  
10:26:01 21 as an associate, what were your responsibilities?

10:26:05 22 A. Can you be more specific about what  
10:26:08 23 you mean by responsibilities.

10:26:10 24 Q. Let me try to break it down.

10:26:12 25 When you started at McKenzie in 1985,

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10:26:14 1 what did you do? What was your job?

10:26:17 2 A. My job was to do analysis of  
10:26:20 3 companies, as part of an engagement team. Served  
10:26:26 4 clients both in the public sector and in the private  
10:26:30 5 sector. In the public sector and in the private  
10:26:32 6 sector.

10:26:33 7 Q. What kind of analysis did you engage  
10:26:36 8 in?

10:26:37 9 A. That's a broad question. Would you  
10:26:39 10 tell me what you're -- be more specific.

10:26:42 11 Q. It is a broad question. I'd like  
10:26:44 12 just a broad answer, so we can just move forward.

10:26:45 13 A. Economic analysis, quantitative  
10:26:48 14 analysis, spreadsheets, interviews.

10:26:52 15 Q. And when you would conduct  
10:26:54 16 interviews, would you conduct -- would you interview  
10:26:57 17 individuals from the various companies?

10:26:59 18 A. Yes.

10:26:59 19 Q. Were these on-site interviews?

10:27:02 20 A. Oftentimes on-site, sometimes by  
10:27:04 21 phone.

10:27:05 22 Q. And when you became -- when did you  
10:27:07 23 become -- sorry, what was it merging --

10:27:11 24 A. Engagement manager.

10:27:13 25 Q. Thank you. When did you become an

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10:27:15 1 engagement manager at McKenzie?

10:27:19 2 A. After a couple of years. I'm not  
10:27:20 3 sure of the exact date.

10:27:21 4 Q. And how did your job change at  
10:27:24 5 McKenzie when you became an engagement manager?

10:27:27 6 A. As engagement manager I was  
10:27:30 7 responsible for one or more associates and managing  
10:27:33 8 their work as well as my own work.

10:27:35 9 Q. When you say their work and your own  
10:27:37 10 work, what work are you referring to?

10:27:40 11 A. I'm referring to the analysis that we  
10:27:41 12 prepared for recommendations to the client.

10:27:45 13 Q. Were these recommendations to your  
10:27:48 14 clients, were these recommendations to invest or not  
10:27:53 15 invest in a particular company?

10:27:56 16 A. To be clear, McKenzie & Company is  
10:27:58 17 not an investment firm. It's a consulting firm. So  
10:28:01 18 our recommendations were consultative in nature.  
10:28:05 19 Whether that involved investments or not, I don't  
10:28:08 20 recall, but that was not the primary purpose of the  
10:28:11 21 analysis, that I remember.

10:28:13 22 Q. What was the primary purpose?

10:28:16 23 A. I primarily focused on healthcare  
10:28:18 24 companies.

10:28:20 25 Q. After McKenzie & Company -- after

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10:28:24 1 McKenzie, what was your next job?

10:28:27 2 A. My next job was as managing partner,  
10:28:31 3 I'm not sure of the title, but it was managing  
10:28:33 4 partner of a group called, now called the Doblin  
10:28:37 5 Group.

10:28:37 6 Q. Um-hum.

10:28:39 7 A. It was renamed when they made me  
10:28:41 8 managing partner: Doblin, Keeley, Malin, Stamos.

10:28:47 9 Q. And when did you join Doblin?

10:28:51 10 A. I don't recall the exact month, but I  
10:28:54 11 believe it was at the beginning of 1990 for about 12  
10:28:58 12 months.

10:28:59 13 Q. And what kind of company was Doblin?

10:29:05 14 A. Also a consulting firm, but it  
10:29:08 15 focused more on industrial design.

10:29:13 16 Q. Could you be more specific as to  
10:29:15 17 what's industrial design?

10:29:17 18 A. An example of industrial design would  
10:29:19 19 be the physical configuration of Amoco gas stations.

10:29:29 20 Q. And you would provide consultation on  
10:29:31 21 the physical configuration of Amoco gas stations?

10:29:34 22 A. I wouldn't personally do that. I was  
10:29:36 23 the manager of a team that would do that.

10:29:40 24 Q. Okay, thank you.

10:29:41 25 Before I forget, what was your thesis



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10:29:43 1 in for your PhD from Oxford -- your doctoral from  
10:29:48 2 Oxford?

10:29:49 3 A. Doctoral thesis was, topic was the  
10:29:53 4 welfare state and the challenge of economic crisis.

10:30:00 5 Q. Interesting.

10:30:02 6 A. I believe, comma, with a particular  
10:30:04 7 attention to the Swedish healthcare system. But it  
10:30:08 8 was the welfare state and the challenge of economic  
10:30:11 9 crisis.

10:30:12 10 Q. Very relevant topic today, I would  
10:30:16 11 think. Thank you.

10:30:18 12 How long were you at Doblin for?

10:30:21 13 A. You know, I think it was 12 months  
10:30:22 14 but it might have been a little bit longer.

10:30:24 15 Q. And why did you move from McKenzie to  
10:30:28 16 Doblin?

10:30:29 17 A. I was given the opportunity to become  
10:30:31 18 a manager at the level of senior executive,  
10:30:37 19 equivalent of a co-managing partner of the firm.

10:30:41 20 Q. Understood. And when you left  
10:30:47 21 Doblin, after about a year, you said?

10:30:49 22 A. Yes.

10:30:49 23 Q. Where did you go after that?

10:30:51 24 A. My next role was as a -- well, to be  
10:30:56 25 precise, there was about a three-month window where

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10:31:01 1 I did transitional work as an independent company  
10:31:05 2 and that was in transition to becoming Bill  
10:31:10 3 Bradley's chief of staff, which was three to six  
10:31:12 4 months later.

10:31:14 5 Q. And what was that independent  
10:31:15 6 company?

10:31:16 7 A. It was called, I believe, Integrated  
10:31:20 8 Strategies and it worked with my former employer.

10:31:24 9 Q. When you say former employer, was  
10:31:26 10 that --

10:31:27 11 A. Doblin.

10:31:27 12 Q. -- Doblin?

10:31:28 13 A. Yes.

10:31:28 14 Q. That was for several months, you  
10:31:31 15 said?

10:31:31 16 A. I believe it was three months.

10:31:32 17 Q. What was the nature of that company?

10:31:35 18 A. It was intended to provide work  
10:31:37 19 alongside the Doblin Group with -- for the same  
10:31:43 20 clients.

10:31:44 21 Q. Industrial design type work?

10:31:48 22 A. Yes. So, in effect the consulting  
10:31:50 23 piece of it, the managing consulting piece of it  
10:31:53 24 paralleled to the industrial design piece of it.

10:31:57 25 Q. And when did you join Senator

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10:32:00 1 Bradley's staff?

10:32:01 2 A. Within three to six months of my  
10:32:03 3 leaving Doblin Group. So, it's somewhere in my  
10:32:07 4 resume but I think it was in the middle of 1990.  
10:32:09 5 Might have well been like June of 1990.

10:32:12 6 MR. GOUDISS: 1990 or '91?

10:32:14 7 THE WITNESS: I believe it was 19 --  
10:32:16 8 oh, I'm sorry, that would have been 1991. That's  
10:32:19 9 right, 1991.

10:32:19 10 Q. A ballpark figure is fine.

10:32:25 11 And when you joined Senator Bradley's  
10:32:29 12 staff you joined as chief of staff, you said?

10:32:31 13 A. I was chief of staff and also was  
10:32:33 14 chief economist.

10:32:37 15 Q. And how long did you work for Senator  
10:32:40 16 Bradley?

10:32:41 17 A. All the way through the election of  
10:32:44 18 President Bill Clinton. So that would have been the  
10:32:46 19 end of '92, I believe. December of '92.

10:32:51 20 Q. And where did you work after that?

10:32:56 21 A. At Booz Allen Healthcare.

10:32:58 22 Q. Why did you leave Senator Bradley's  
10:33:01 23 staff to go to Booz Allen?

10:33:05 24 A. Primary reason for leaving Senator  
10:33:09 25 Bradley's staff was that he was not going to be

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10:33:14 1 running for president. President Clinton was  
10:33:17 2 elected and so I asked his permission to go back to  
10:33:20 3 the private sector.

10:33:21 4 Q. And why did you go to Booz Allen?

10:33:25 5 A. Because they had a very reputable  
10:33:29 6 healthcare practice and that was an area of  
10:33:31 7 expertise that I had developed at McKenzie.

10:33:33 8 Q. When you joined Booz Allen, what was  
10:33:36 9 your position?

10:33:38 10 A. I was a principal.

10:33:39 11 Q. And, generally speaking, what were  
10:33:42 12 your responsibilities as a principal at Booz Allen?

10:33:46 13 A. Generally speaking, similar to the  
10:33:47 14 responsibilities I had at McKenzie as an engagement  
10:33:53 15 manager but at one level higher, larger teams, but  
10:33:59 16 the same sort of analysis.

10:34:00 17 Q. By same sort of analysis, what are  
10:34:03 18 you referring to?

10:34:04 19 A. The primary focus of my work was the  
10:34:09 20 design and implementation of work called integrated  
10:34:13 21 healthcare delivery systems, which was the topic of  
10:34:15 22 my doctoral thesis.

10:34:17 23 Q. What are integrated healthcare  
10:34:20 24 delivery systems?

10:34:21 25 A. Generally speaking?

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Q. Yes.

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A. Generally speaking, they are the bringing together of physician groups, hospital groups and/or payor groups into one system. So it can be as simple as the merger of two or three hospitals, can be as complicated as the merger of hospitals with physician groups with payor insurance company.

Q. Is that the type of work you did for Long Island Jewish Health System?

A. Precisely.

Q. Okay. We'll get to that in just a minute. As you can tell, I'm doing this chronologically, just to get an understanding of your background.

A. And I apologize if the dates are a little off, but it's on my bio and then also I think the documents that we...

Q. Okay. I appreciate that.

And how long were you at Booz Allen for?

A. As part of the organization I believe it was about a year. And then I became an independent contractor with them for about six months.

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10:35:21 1 Q. And when did you form Stamos  
10:35:25 2 Associates?

10:35:25 3 A. In that time frame.

10:35:27 4 Q. Is that the independent contractor  
10:35:29 5 you were referring to?

10:35:30 6 A. Yes.

10:35:30 7 Q. So you formed Stamos Associates  
10:35:33 8 around 1994 or '95?

10:35:36 9 A. I believe it was '94. Or could have  
10:35:41 10 been, it could have been -- I don't remember the  
10:35:43 11 exact dates. It was either '93 or '94. I believe  
10:35:48 12 it was '94.

10:35:49 13 Q. And what was the nature of Stamos  
10:35:51 14 Associates' business?

10:35:52 15 A. Healthcare consulting.

10:35:54 16 Q. And how many employees did you have?

10:35:57 17 A. Did we have at what time frame?

10:36:00 18 Q. Let's say when you started.

10:36:02 19 A. When we started, initially it was  
10:36:03 20 just myself, an independent contractor, working with  
10:36:07 21 associates and other former colleagues from Booz  
10:36:12 22 Allen.

10:36:12 23 Q. And why did you decide to become an  
10:36:14 24 independent contractor?

10:36:16 25 A. I was given an offer to join the

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10:36:19 1 faculty of Stanford as part of -- as the director of  
10:36:23 2 comparative healthcare research project. And as an  
10:36:27 3 independent contractor I could be both on the  
10:36:30 4 faculty and continue to do consulting work.

10:36:32 5 Q. Are you still doing that work for  
10:36:35 6 Stanford?

10:36:37 7 A. No.

10:36:37 8 Q. Are you on any Stanford boards or  
10:36:40 9 anything along those lines?

10:36:41 10 A. Yes.

10:36:42 11 Q. What boards are you on at Stanford?

10:36:44 12 A. I'm on the board of Stanford  
10:36:47 13 University Hospital and Clinics and I chair the  
10:36:49 14 investment committee of that group. And I'm on the  
10:36:52 15 finance committee as well.

10:36:54 16 Q. How long have you been the chair of  
10:36:56 17 the investment committee?

10:36:58 18 A. For several years. I don't remember  
10:36:59 19 when it officially began.

10:37:01 20 Q. And what are your responsibilities as  
10:37:06 21 chair of the investment committee?

10:37:07 22 A. Could you be more specific about  
10:37:09 23 responsibilities or give me a little bit more  
10:37:12 24 direction as to what you're asking?

10:37:15 25 Q. Well, not really. I'm just asking a

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10:37:18 1 general question. As chair of this investment  
10:37:20 2 committee, what are your responsibilities, what are  
10:37:22 3 your obligations, what's expected of you?

10:37:25 4 A. Okay. So the committee is -- my  
10:37:28 5 general responsibilities is to chair a meeting of  
10:37:31 6 members of the committee four times a year and to  
10:37:34 7 provide guidance as to how to allocate capital that  
10:37:40 8 the hospital has across various asset classes,  
10:37:45 9 including substantial allocation to Stanford  
10:37:50 10 University, what's called the Stanford University  
10:37:53 11 merged pool of capital which invests across multiple  
10:37:57 12 asset classes. It's about 700 million to a billion  
10:38:02 13 dollars of capital.

10:38:04 14 Q. And you can't recall how long you've  
10:38:06 15 been chair of that investment committee?

10:38:08 16 A. It's been several years. I just  
10:38:11 17 don't recall when it officially started. I've been  
10:38:14 18 on the board for I believe eight or nine years.

10:38:17 19 Q. Just so I get a rough time frame, did  
10:38:19 20 you become chair of the investment committee before  
10:38:22 21 or after you formed Sterling Stamos?

10:38:25 22 A. After forming Sterling Stamos.

10:38:28 23 Q. That was in June of '02, right?

10:38:30 24 A. That was June of '02.

10:38:32 25 Q. Okay. So it was after June of '02



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10:38:34 1 you became chair?

10:38:35 2 A. Yes. I believe it was two or three  
10:38:36 3 years after that.

10:38:36 4 Q. Okay.

10:38:37 5 A. I think it was in the '04 to '06 time  
10:38:40 6 frame, but I don't recall exactly when.

10:38:42 7 Q. Do you know if -- how many members  
10:38:43 8 are on the investment committee?

10:38:46 9 A. I don't have the exact number, I  
10:38:48 10 think it's somewhere between four to six members,  
10:38:50 11 official members.

10:38:51 12 Q. Do you know if any of the members of  
10:38:53 13 the investment committee had any investments in  
10:38:55 14 Madoff?

10:38:56 15 A. I wouldn't know that. I don't know  
10:38:58 16 what their personal investments are.

10:39:00 17 Q. Did the topic of Madoff ever come up  
10:39:03 18 in any of these investment committee meetings,  
10:39:06 19 quarterly meetings that you hold?

10:39:09 20 A. Can you be more specific about time  
10:39:13 21 frame.

10:39:13 22 Q. Did the topic of Madoff ever come up  
10:39:15 23 at any investment committee that you chaired?

10:39:19 24 A. What I recall is the topic of Madoff  
10:39:23 25 coming up after it was announced that -- after the

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10:39:28 1 fraud was announced, coming up that he was arrested.  
10:39:32 2 I recall that topic coming up that day. I believe,  
10:39:37 3 I think we had a committee meeting either that day  
10:39:39 4 or the day after. I think we had a committee  
10:39:41 5 meeting the day after.

10:39:42 6 Q. Okay. So the fraud was revealed, so  
10:39:45 7 to speak, or he was arrested on December 11th, 2008,  
10:39:51 8 right?

10:39:51 9 A. That is...

10:39:52 10 Q. I can represent to you.

10:39:52 11 A. Yes, yes.

10:39:53 12 Q. Trust me, I know.

10:39:55 13 A. If that was -- as I remember, the  
10:39:56 14 committee meeting was a Friday. So if that was a  
10:39:59 15 Thursday, that Friday.

10:40:01 16 Q. You're absolutely right. Your memory  
10:40:01 17 is very good on that.

10:40:02 18 So that was a Thursday and you had a  
10:40:04 19 meeting the following Friday with the investment  
10:40:07 20 committee? The next Friday, the following day.

10:40:10 21 A. The next day. Well, to be specific,  
10:40:11 22 that Friday we had our set of regularly scheduled  
10:40:15 23 meetings, which is the investment committee followed  
10:40:18 24 by the finance committee followed by the board.

10:40:21 25 Q. What was discussed at the investment

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10:40:24 1 committee meeting that Friday concerning Madoff?

10:40:27 2 A. To be clear, I don't recall it being  
10:40:29 3 raised as part of the discussions of the committee.  
10:40:31 4 I believe I recall, in fact I'm certain I recall, it  
10:40:35 5 being a topic in between meetings and I received an  
10:40:39 6 email from one of my committee members about that  
10:40:42 7 that day.

10:40:43 8 Q. Is that how you found out about the  
10:40:47 9 Madoff fraud?

10:40:48 10 A. No. I heard about the Madoff fraud  
10:40:50 11 the day before.

10:40:53 12 Q. With respect to these discussions on  
10:40:55 13 that Friday, the 12th, December 12th, what was the  
10:41:00 14 nature of those discussions?

10:41:03 15 A. If I expressed that there were  
10:41:06 16 discussions, I didn't intend to express that. I  
10:41:09 17 don't think there were discussions. I remember it  
10:41:10 18 being, the topic being raised, one time specifically  
10:41:15 19 I can remember it being raised.

10:41:16 20 Q. And who raised the Madoff topic?

10:41:19 21 A. John Scully.

10:41:20 22 Q. And who is John Scully?

10:41:21 23 A. John Scully is the chairman of the  
10:41:23 24 finance committee and is on the investment committee  
10:41:25 25 with me.

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10:41:26 1

Q. What did Mr. Scully say?

10:41:28 2

A. I don't recall whether we actually had a conversation. What I do recall is receiving an email from him.

10:41:31 4

10:41:33 5

Q. So he sent you an email on December 12th?

10:41:37 6

10:41:38 7

A. Yes. In the middle of the committee meeting. One of the committee meetings.

10:41:40 8

10:41:43 9

Q. And what did the email say?

10:41:45 10

A. I believe you have that. I submitted it. From what I recall it was -- it had something to do with it being reported in the press that either Sterling Equities or Sterling Stamos had made investments with Madoff.

10:41:47 11

10:41:55 12

10:41:59 13

10:42:03 14

10:42:05 15

Q. And what was your response to Mr. Scully's email?

10:42:07 16

10:42:10 17

A. I don't recall the exact response. Again, I think I've submitted it. In fact, I'm sure it's in the documents. I actually don't recall, I don't recall what I responded, but it's in the documents. I know what I would have intended to say, which is that it was a mistake.

10:42:12 18

10:42:15 19

10:42:22 20

10:42:24 21

10:42:26 22

10:42:29 23

Q. And did you express that to him in person at one of these meetings? On that Friday.

10:42:32 24

10:42:37 25

A. I don't recall the exact conversation

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10:42:38 1 with Mr. Scully, but I do recall the nature of his  
10:42:42 2 concern because he knows the Wilpons well.

10:42:48 3 Q. How did Mr. Scully know the Wilpons?

10:42:51 4 A. He is one of the owners of the New  
10:42:53 5 York -- of the San Fransisco Giants and Wilpons, as  
10:42:56 6 you know, are owners of the New York Mets.

10:42:58 7 Q. So when you're referring to  
10:43:00 8 Mr. Scully knows the Wilpons, are you referring to  
10:43:04 9 Fred Wilpon?

10:43:05 10 A. He knows both Fred Wilpon and Richard  
10:43:08 11 Wilpon.

10:43:09 12 Q. Do you know if Mr. Scully and Fred  
10:43:12 13 Wilpon ever had any discussions concerning  
10:43:17 14 Mr. Wilpon's Madoff investments?

10:43:19 15 A. I don't have any knowledge of those  
10:43:22 16 conversations.

10:43:22 17 Q. Do you know if Mr. Scully had any  
10:43:25 18 investments with Madoff?

10:43:26 19 A. I don't know if he had the  
10:43:27 20 investments with Mr. Madoff. He may have but that  
10:43:31 21 would not be part of my knowledge.

10:43:32 22

10:43:36 23

REDACTED

10:43:37 24

10:43:40 25

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- 10:43:41 1
- 10:43:44 2
- 10:43:48 3
- 10:43:49 4
- 10:43:50 5
- 10:43:53 6
- 10:43:57 7
- 10:44:00 8
- 10:44:01 9
- 10:44:02 10
- 10:44:04 11
- 10:44:07 12
- 10:44:09 13
- 10:44:12 14
- 10:44:14 15
- 10:44:16 16
- 10:44:18 17
- 10:44:20 18
- 10:44:25 19
- 10:44:27 20
- 10:44:29 21
- 10:44:29 22
- 10:44:34 23
- 10:44:35 24
- 10:44:37 25

*REDACTED*

*REDACTED*

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10:44:39 1

10:44:39 2

10:44:40 3

REDACTED

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10:44:57 11

10:45:00 12

Other than the email you received from Mr. Scully and the conversation you had with him that day on December 12th, did you have any other conversations or receive any other emails from anyone on the investment committee or finance committee that day?

10:45:04 13

10:45:06 14

10:45:11 15

10:45:13 16

10:45:16 17

A. I don't recall any other emails from any other committee members that day. From any other committee members that day. It is possible that I submitted all the emails, but I don't recall seeing that.

10:45:17 18

10:45:19 19

10:45:24 20

10:45:26 21

10:45:28 22

Q. And other than your conversation with Mr. Scully on February -- December 12th, did you have any other discussions or conversations with anyone from the investment committee or the finance committee that day?

10:45:32 23

10:45:33 24

10:45:37 25

A. I don't recall any specific conversations but I would, as I think about that day, my sense is that I must have had, I would

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10:45:40 1 assume I had some conversations because it was a  
10:45:42 2 concern for everybody. People were talking about  
10:45:45 3 it.

10:45:45 4 Q. And why was there a concern for the  
10:45:48 5 members of the Stanford investment committee and  
10:45:52 6 finance committees?

10:45:53 7 A. I think it was a concern for them the  
10:45:55 8 same way it was a concern for anybody who was  
10:45:58 9 concerned about such a difficult event.

10:46:04 10 Q. Just generally speaking, the nature  
10:46:07 11 of the massive fraud, is that what you're referring  
10:46:10 12 to?

10:46:10 13 A. Yes.

10:46:11 14 Q. Anything else?

10:46:13 15 A. No, no -- well, I think the only  
10:46:15 16 other part was the conversation I had with John  
10:46:18 17 Scully, which was his concern about his friends the  
10:46:22 18 Wilpons and his concern about whether we also had  
10:46:25 19 exposure.

10:46:25 20 Q. So did anyone else that day raise the  
10:46:29 21 Wilpons' investments with Madoff with you that day?

10:46:34 22 A. It's possible that they did. It was  
10:46:36 23 a very busy day. I don't recall the specific  
10:46:38 24 conversations of that day. But I know that several  
10:46:42 25 of the committee members knew about my relationship



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10:46:45 1 with the Wilpons and the Katzes, so it's very  
10:46:48 2 possible that I had other conversations. If you  
10:46:51 3 spoke to them they might recall, but I don't. I  
10:46:55 4 don't recall any specific conversations.

10:46:55 5 Q. Who are the other members of the  
10:46:58 6 investment committee?

10:46:59 7 A. I don't recall all of them by name,  
10:47:00 8 but I'll tell you the ones I can remember.

10:47:02 9 Q. That's fine.

10:47:03 10 MR. GOUDISS: This is as of December  
10:47:05 11 2008?

10:47:05 12 MR. BOHORQUEZ: Correct.

10:47:06 13 A. As of December 2008 I recall that  
10:47:08 14 John Friedrich was a member of that committee.

10:47:11 15 Q. Who is John Friedrich?

10:47:14 16 A. John Friedrich is a member of the  
10:47:17 17 board and I believe he is the founding partner of a  
10:47:19 18 venture capital group called, I believe it's called  
10:47:24 19 Bay, B-a-y, Partners or Bay Investors. Also believe  
10:47:32 20 he's the founding partner of a law firm called  
10:47:36 21 Friedrich and something.

10:47:37 22 Q. Anyone else, do you recall?

10:47:39 23 A. I don't recall who the members were  
10:47:39 24 on that day. There are other committee members and  
10:47:42 25 I could get that list for you, because the committee

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10:47:44 1 has changed since that day, so I don't recall who  
10:47:48 2 the other members' names are.

10:47:50 3 Q. To the best of your recollection who  
10:47:51 4 were the committee members in 2008?

10:47:53 5 A. 2008, the name's escaping me but the  
10:48:05 6 founder of Netscape is currently a member and I  
10:48:08 7 believe he was a member at that time.

10:48:09 8 Q. What's his name?

10:48:11 9 A. I don't recall.

10:48:14 10 Q. Could probably Google that pretty  
10:48:18 11 quickly.

10:48:18 12 A. We could Google that. He's one of  
10:48:19 13 the co-founders of Netscape. Oh, Marc Andreessen.  
10:48:24 14 Marc Andreessen. He's a member of that committee.

10:48:28 15 Q. Just so we're clear, when you say  
10:48:31 16 that committee, you're talking about the investment  
10:48:32 17 committee or the finance committee?

10:48:33 18 A. Investment committee. The finance  
10:48:35 19 committee is quite large, so the investment  
10:48:37 20 committee.

10:48:37 21 Q. Okay, all right. Anyone else?

10:48:38 22 A. Yeah. There are other members I'm  
10:48:39 23 just blanking on their names.

10:48:41 24 Q. Okay, that's fine.

10:48:42 25 A. But we can give you the list of names

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10:48:44 1 of the committee members.

10:48:45 2 Q. I appreciate that.

10:48:47 3 I want to back up to SAI. And I  
10:48:59 4 believe you sold SAI in around 1997; is that right?

10:49:03 5 A. That date I do know. It was June  
10:49:09 6 17th, 1997. The reason I know that date, it's my  
10:49:09 7 wife's birthday.

10:49:09 8 Q. How fortuitous.

10:49:12 9 A. That was the date that the  
10:49:14 10 transaction was closed, June 17th, 1997.

10:49:18 11 Q. And why did you sell SAI?

10:49:21 12 A. Because I was given an offer from  
10:49:23 13 Perot Systems that was quite attractive.

10:49:28 14 Q. And after you sold SAI, what did you  
10:49:32 15 do next?

10:49:33 16 A. I continued to be employed at SAI for  
10:49:37 17 two or three years. Initially on a full-time basis  
10:49:40 18 and eventually on a part-time basis.

10:49:44 19 Q. And you formed, you and the Sterling  
10:49:49 20 partners formed Sterling Stamos in June of '02,  
10:49:52 21 correct?

10:49:53 22 A. Yes. That I believe was also  
10:49:54 23 formally incorporated on June 17th, 2002, five years  
10:49:59 24 later. And I believe we opened for business on --  
10:50:03 25 with our own capital on July 1st, 2002.

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10:50:10 1 Q. Did you have any other jobs between  
10:50:13 2 SAI and Sterling Stamos?

10:50:15 3 A. Yes.

10:50:16 4 Q. What, could you tell me what those  
10:50:19 5 were?

10:50:19 6 A. Yes. I served as an advisor  
10:50:21 7 consultant to a company called Channel Point.

10:50:25 8 Q. What is Channel Point?

10:50:26 9 A. Channel Point, I don't know if it's  
10:50:29 10 still in existence, but at the time it was a  
10:50:31 11 business-to-business Internet start-up company.

10:50:33 12 Q. And how long did you work for Channel  
10:50:37 13 Point?

10:50:37 14 A. I don't recall exactly, but  
10:50:39 15 approximately 12 to 18 months.

10:50:42 16 Q. And do you recall the time frame?

10:50:45 17 A. Roughly speaking, as I was completing  
10:50:50 18 my work with Perot Systems on a part-time basis, I  
10:50:54 19 believe I rotated initially to a part-time basis and  
10:50:57 20 eventually to a, closer to a full-time basis as a  
10:51:00 21 consulting advisor. So it would have been '99 or  
10:51:05 22 2000. Could have been as early as '98. I don't  
10:51:08 23 recall.

10:51:09 24 Q. Okay. That's fine.

10:51:10 25 What did you do after Channel Point?

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10:51:12 1           A.           After Channel Point I took some time  
10:51:15 2 off and served on at least two advisory boards that  
10:51:22 3 I can recall.

10:51:24 4           Q.           And what were those?

10:51:25 5           A.           I served as an advisor to -- on the  
10:51:28 6 advisory board of a group called grassroots.com.

10:51:34 7           Q.           Is that another B to B?

10:51:37 8           A.           I don't think it was described as a  
10:51:39 9 B to B, but it was in that same sort of technology.  
10:51:44 10 It was a political technology company. And another  
10:51:49 11 company I served on the advisory board of, and I  
10:51:54 12 don't recall, it may actually have been on the -- I  
10:51:55 13 think it was just the advisory board but I may  
10:51:58 14 actually have been on the board of a healthcare  
10:52:01 15 company, whose name escapes me, but I think it's  
10:52:04 16 somewhere in my bio. I could find that for you.

10:52:12 17           Q.           While we're on the subject of  
10:52:13 18 advisory boards, do you currently serve on the  
10:52:16 19 advisory board for major league baseball?

10:52:16 20           A.           Yes. I serve as the chairman of the  
10:52:18 21 advisory board, the investment advisory board for  
10:52:21 22 major league baseball.

10:52:23 23           Q.           How long have you been the chairman  
10:52:25 24 of that board?

10:52:26 25           A.           Again, for several years. I don't

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10:52:27 1 recall the exact start-up, the date of that, but I  
10:52:31 2 was the founding chairman. So, more than two, I  
10:52:35 3 think less than five years. Somewhere in the three  
10:52:38 4 to five-year range. Actually, I can think more  
10:52:44 5 specifically about the initial investments. I think  
10:52:46 6 the first investment of this group was in 2007. So  
10:52:52 7 I think the group was formed in 2007.

10:52:55 8 Q. So to be specific, the first  
10:52:57 9 investment of the advisory board was in 2007?

10:53:01 10 A. The advisory board was -- I misspoke.  
10:53:04 11 The first investment of the major league baseball  
10:53:09 12 with the consultation of the advisory board was made  
10:53:12 13 I believe in 2007. They had made prior --  
10:53:15 14 investments prior to the formation of the advisory  
10:53:18 15 board.

10:53:19 16 Q. And, generally speaking, what are  
10:53:22 17 your obligations and responsibilities as chair of  
10:53:26 18 the investment advisory board for MLB?

10:53:28 19 A. Generally speaking, my responsibility  
10:53:31 20 is to gather information from other members of the  
10:53:34 21 advisory board and to provide that information about  
10:53:36 22 the economy, markets and investment opportunities to  
10:53:41 23 the investment committee of major league baseball,  
10:53:45 24 who ultimately makes the investment decisions.

10:53:48 25 Q. In the investment advisory board, how

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10:53:51 1 often do you meet?

10:53:54 2 A. We meet periodically, not on a  
10:53:57 3 defined basis, but we try to have at least one  
10:53:59 4 meeting per year. Sometimes we meet two, three or  
10:54:04 5 four times per year. And then in between I have  
10:54:07 6 phone call conversations with members of the  
10:54:09 7 advisory board.

10:54:11 8 Q. How large is the advisory board for  
10:54:15 9 MLB?

10:54:16 10 A. I can tell you its current  
10:54:19 11 membership if that's -- yes, I think it's four, five  
10:54:22 12 members, but to tell you the number I have to think  
10:54:25 13 of the names. About four or five members.

10:54:27 14 Q. Okay. Could you tell me who they  
10:54:29 15 are?

10:54:29 16 A. Yes. John Powers of Stanford, Scott  
10:54:34 17 Malpass of Notre Dame, Abby Joseph Cohen of Goldman  
10:54:40 18 Sachs, Myron Scholes.

10:54:42 19 Q. The Nobel prize winner?

10:54:45 20 A. That's correct.

10:54:47 21 Those are the four current members,  
10:54:49 22 in addition to myself, that I recall. In addition,  
10:54:55 23 there is an advisor to the advisory board whose name  
10:54:58 24 is David Swenson of Yale. Former member of the  
10:55:03 25 advisory board was Ezra Merkin. No longer a member.

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10:55:09 1 Q. And how long was Mr. Merkin a member  
10:55:12 2 of the advisory board?

10:55:14 3 A. I believe from the inception of the  
10:55:16 4 advisory board all the way until either late 2008 or  
10:55:24 5 the early part of 2009.

10:55:27 6 Q. Was Mr. Merkin's departure from the  
10:55:31 7 advisory board in any way related to the  
10:55:35 8 investigation of Mr. Merkin in connection with  
10:55:39 9 Madoff?

10:55:40 10 A. I would have to say that expression  
10:55:44 11 "in any way," the answer is yes.

10:55:46 12 Q. Can you please explain that answer.

10:55:49 13 A. Yes. When Mr. Merkin's involvement  
10:55:55 14 with Mr. Madoff was disclosed, to the shock and  
10:56:00 15 surprise of many of us, myself included, I asked the  
10:56:07 16 chief financial officer of major league baseball to  
10:56:11 17 ask for his resignation.

10:56:15 18 Q. How do you know Ezra Merkin?

10:56:18 19 A. I was introduced to Mr. Merkin by  
10:56:20 20 Mr. Saul Katz.

10:56:21 21 Q. And when did Saul Katz introduce you  
10:56:24 22 to Ezra Merkin?

10:56:26 23 A. Before the formation of our firm  
10:56:31 24 in --

10:56:31 25 Q. By "our firm" you're referring to



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10:56:33 1 Sterling Stamos?

10:56:34 2 A. Sterling Stamos, which at the time  
10:56:36 3 was called SP Capital. Stamos Partners Capital  
10:56:40 4 Management, I believe it was. It would have been in  
10:56:42 5 the April, May, June period of time before our first  
10:56:47 6 investments were made on July 1st.

10:56:50 7 Q. This is 2002?

10:56:52 8 A. 2002.

10:56:54 9 Q. Could you describe to me the first  
10:56:56 10 meeting that you had with -- actually, let me back  
10:56:59 11 up.

10:56:59 12 How did Mr. Saul Katz introduce you  
10:57:02 13 to Ezra Merkin?

10:57:04 14 A. How or why?

10:57:07 15 Q. We can start with -- we'll do both  
10:57:09 16 but let's start with how.

10:57:11 17 A. He introduced me orally saying this  
10:57:15 18 is somebody I would like you to meet.

10:57:17 19 Q. So this was in person?

10:57:18 20 A. It was either in person or by phone.  
10:57:20 21 I don't recall.

10:57:21 22 Q. And why did Mr. Katz introduce you to  
10:57:24 23 Mr. Merkin?

10:57:25 24 A. Mr. Merkin was one of, I would say  
10:57:28 25 several managers that Mr. Katz wanted me to meet,

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10:57:34 1 who he believed would either, A, give me a good  
10:57:41 2 introduction to other managers or, B, possibly be  
10:57:47 3 one of the managers that we could invest in. And I  
10:57:50 4 believe Mr. Katz said this is also somebody that you  
10:57:53 5 could learn from.

10:57:55 6 Q. And from, could you describe the  
10:57:59 7 relationship that you had with Mr. Merkin from  
10:58:02 8 introduction in April of '02 until December of 2008?

10:58:06 9 A. Could I ask you to be more specific  
10:58:08 10 as to time frame, because there's a lot of -- maybe  
10:58:11 11 just do it in segments.

10:58:13 12 Q. Okay. Let's start with the beginning  
10:58:17 13 of the relationship with Mr. Merkin; can you please  
10:58:21 14 describe the nature of that relationship.

10:58:22 15 A. Sure. The initial nature of the  
10:58:25 16 relationship was to meet him about the possibility  
10:58:27 17 of, as I said, either, A, learning from him of  
10:58:31 18 managers that we should invest in. Because he was a  
10:58:34 19 very reputable person and knew a lot about managers.  
10:58:38 20 And/or, B, to actually invest in his funds. And in  
10:58:42 21 the nature of that first set of meetings, some of  
10:58:45 22 which were held by me, some by others, we made a  
10:58:49 23 decision to invest in I believe two or three of his  
10:58:53 24 funds.

10:58:53 25 Q. And those two or three funds were

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10:58:56 1

Gabriel?

10:58:56 2

A. I believe it was Gabriel, Ascot and

10:59:00 3

Long Horizons.

10:59:01 4

Q. Sorry, what was the last one?

10:59:04 5

A. Long Horizons.

10:59:05 6

Q. When Mr. Saul Katz -- part of the

10:59:08 7

reason why Mr. Saul Katz introduced you to

10:59:11 8

Mr. Merkin you said was because he believed you

10:59:13 9

could learn from him; is that right?

10:59:16 10

A. (Witness nods.)

10:59:16 11

Q. Over the course of your relationship

10:59:18 12

from '02 to '08, did you -- what did you learn from

10:59:21 13

Mr. Merkin?

10:59:22 14

A. You'd have to be more specific about

10:59:24 15

that. I learned a lot things. I learned about

10:59:29 16

managers, for example.

10:59:30 17

Q. What did you learn about managers

10:59:32 18

from Mr. Merkin?

10:59:32 19

A. He introduced me to a number of

10:59:34 20

highly reputable managers that were either hard to

10:59:38 21

get into or, in some cases, closed managers.

10:59:43 22

Q. And what managers were those, do you

10:59:46 23

recall?

10:59:47 24

A. I recall some of them. I recall him

10:59:49 25

introducing us to the manager called TPG-Axon, as an

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10:59:58 1

example.

11:00:00 2

Q. Anyone else?

11:00:01 3

A. There are others that I recall from

11:00:02 4

my emails, but -- introduced us to Sirbius, as

11:00:12 5

another example.

11:00:13 6

Q. Did you ever seek Mr. Merkin's advice

11:00:16 7

or counsel on any matters?

11:00:18 8

A. Yes.

11:00:18 9

Q. From '02 to '08?

11:00:21 10

A. Yes.

11:00:21 11

Q. On what topics would you seek

11:00:23 12

Mr. Merkin's -- or on what topics did you seek Mr.

11:00:24 13

Merkin's advice?

11:00:25 14

A. I don't recall specific conversations

11:00:26 15

but, generally speaking, I would talk to him about

11:00:29 16

his view of the economy, investment opportunities

11:00:36 17

and, more specifically, about what managers he had

11:00:40 18

come across in his experience that we should

11:00:44 19

consider investing in ourselves, in addition to his

11:00:47 20

own funds.

11:00:48 21

Q. Anything else you recall?

11:00:50 22

A. Anything else?

11:00:51 23

Q. Other than what you just -- let me

11:00:54 24

back up.

11:00:54 25

I asked you what were the topics that

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11:00:57 1 you sought Mr. Merkin's advice and counsel, and you  
11:01:00 2 just went through a list. Were there any other  
11:01:02 3 issues?

11:01:03 4 A. This was over the course of many  
11:01:05 5 years. I can't recall all of them but I recall  
11:01:07 6 generally speaking having a number of conversations  
11:01:09 7 with him about his own investments and understanding  
11:01:12 8 the nature of those investments and what the  
11:01:15 9 prospects were for their returns, sources were for  
11:01:19 10 their returns, and the like.

11:01:21 11 Q. And did you ever seek his advice or  
11:01:23 12 counsel with respect to any government regulations?

11:01:30 13 A. I recall having conversations with  
11:01:31 14 him about pending government regulations. I don't  
11:01:34 15 recall that I initiated the request or whether he  
11:01:38 16 initiated the request or whether Mr. Katz initiated  
11:01:41 17 the request. But I recall there were conversations  
11:01:45 18 and emails.

11:01:45 19 Q. What were the topics of those  
11:01:48 20 discussions about --

11:01:48 21 A. The topic that I remember is about  
11:01:51 22 registration.

11:01:51 23 Q. Mr. Stamos, let me just make  
11:01:54 24 something -- I think this will go a lot -- when you  
11:01:55 25 are answering a question, I will wait until you're

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11:01:58 1 done --

11:01:58 2 A. I apologize.

11:01:59 3 Q. -- and you'll do the same, okay?

11:02:00 4 A. I apologize.

11:02:01 5 Q. Because this is going to drive Nancy

11:02:05 6 crazy. Let me see, where were we?

11:02:08 7 What were the topics of the

11:02:10 8 discussions that you had with Mr. Merkin with

11:02:13 9 respect to government regulations?

11:02:14 10 A. I recall one topic about registration

11:02:17 11 as an investment advisor. There may have been other

11:02:20 12 topics, but that's the topic I recall.

11:02:23 13 Q. What do you recall about that topic?

11:02:27 14 A. Be more specific.

11:02:29 15 Q. Well, you had discussions with

11:02:31 16 Mr. Merkin concerning registration as an investment

11:02:35 17 advisor, right?

11:02:36 18 A. Yes.

11:02:38 19 Q. So, what was discussed?

11:02:44 20 A. I can recall a topic that we

11:02:48 21 discussed and maybe other topics will come to mind,

11:02:52 22 but one topic I recall was our desire, that's SP

11:02:57 23 Capital which became Sterling Stamos, our desire to

11:03:00 24 become a registered investment advisor.

11:03:02 25 Q. And I believe, from our records, from

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11:03:09 1 what I've read, SP Capital or Sterling Stamos  
11:03:13 2 registered as an investment advisor in 2005; is that  
11:03:13 3 right?

11:03:17 4 A. Yes, I believe that's correct.

11:03:18 5 Q. June or July of 2005?

11:03:21 6 A. June or July of 2005 sounds like the  
11:03:24 7 right date to me.

11:03:25 8 Q. So, when did Sterling Stamos, when  
11:03:29 9 does the topic of Sterling Stamos' registration as  
11:03:33 10 an investment advisor first come up?

11:03:39 11 A. With Mr. Merkin or in general?

11:03:42 12 Q. Let's back up. In general.

11:03:43 13 A. In general I believe we started to  
11:03:45 14 talk about registration as early as 2003,  
11:03:49 15 internally.

11:03:50 16 Q. Why did that subject come up  
11:03:51 17 internally?

11:03:54 18 A. I think there were two reasons. Not  
11:03:56 19 necessarily in this order. One is that we were  
11:03:58 20 interested in becoming registered to raise our bar,  
11:04:04 21 if you will, to become a more institutional quality  
11:04:10 22 firm.

11:04:11 23 Number two is we received some  
11:04:13 24 indication from, I believe, Schulte Roth & Zabel  
11:04:18 25 that this was potentially a pending requirement for

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11:04:20 1 a firm such as ours. Some combination of our desire  
11:04:26 2 plus that it was likely or it was possible that it  
11:04:30 3 would be required.

11:04:33 4 Q. Okay. Dealing with the first point  
11:04:34 5 that you raised, why did you think that registering  
11:04:39 6 as an investment advisor would raise the bar of your  
11:04:43 7 firm?

11:04:44 8 A. Our initial investments were from  
11:04:47 9 families, primarily friends and family, if you will.  
11:04:52 10 We believed that after two or three years of  
11:04:55 11 investing, we could attract institutional capital  
11:04:57 12 and it was our sense that institutional clients  
11:05:01 13 would either, A, appreciate or, B, require that we  
11:05:07 14 be registered.

11:05:08 15 Q. And did Sterling Stamos hire a  
11:05:11 16 consultant to advise you on whether or not to  
11:05:13 17 register as an investment advisor in 2003?

11:05:17 18 A. We may have. I don't recall. It  
11:05:19 19 would not surprise me if we did, particularly if you  
11:05:22 20 include in the context of consulting the work that  
11:05:26 21 our lawyers did for us.

11:05:30 22 Q. In connection with those initial  
11:05:32 23 discussions as to whether or not Sterling Stamos  
11:05:34 24 should register as an investment advisor, did anyone  
11:05:39 25 within the Sterling Stamos organization have



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11:05:42 1 discussions with Saul Katz about registering as an  
11:05:45 2 investment advisor?

11:05:46 3 A. Yes.

11:05:48 4 Q. Who had those discussions with Saul  
11:05:51 5 Katz?

11:05:52 6 A. I don't recall who the individuals  
11:05:57 7 were specifically, but I know the people who were  
11:06:01 8 involved. So I don't know whether they had phone  
11:06:03 9 conversations or email conversations or  
11:06:05 10 conversations with people who had spoke to Saul, but  
11:06:09 11 I know that communication occurred. And I might  
11:06:11 12 have been one of those people myself.

11:06:13 13 Q. And who are the people involved?

11:06:16 14 A. The primary people involved at the  
11:06:19 15 time would have been Derek Daley, who at that time  
11:06:22 16 was serving as our in-house general counsel. Kevin  
11:06:30 17 Okimoto, who was leading our investor relations  
11:06:36 18 group, and myself.

11:06:37 19 Q. Was Ashok Chachra part of those  
11:06:42 20 discussions?

11:06:42 21 A. I believe Ashok would have been  
11:06:44 22 involved as well because he was the lead investment  
11:06:46 23 person other than myself at the time.

11:06:49 24 Q. What about Deborah, and I'm probably  
11:06:54 25 going to her butcher name, too, Peppins or Pipines?

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11:06:56 1 A. She was a consultant to the firm and  
11:06:58 2 she may well have been involved as well.

11:07:01 3 Q. Other than Mr. Okimoto, Mr. Chachra,  
11:07:06 4 Ms. Pipines -- am I pronouncing that right?

11:07:06 5 A. Pipines, I believe.

11:07:09 6 Q. -- Pipines, and possibly yourself and  
11:07:10 7 Mr. Daley, were there any other individuals involved  
11:07:13 8 with discussions with Mr. Katz with respect to  
11:07:15 9 registering as an investment advisor?

11:07:20 10 A. Individuals in our firm?

11:07:22 11 Q. Yes.

11:07:22 12 A. There may well have been. I don't  
11:07:24 13 recall the specifics, but other members of our firm  
11:07:27 14 may well have been involved as well.

11:07:31 15 Q. What were the nature of those  
11:07:34 16 discussions with Mr. Katz?

11:07:38 17 A. He expressed his concern about our  
11:07:40 18 registering.

11:07:43 19 Q. And what concern did Mr. Saul Katz  
11:07:45 20 express about Sterling Stamos registering as an  
11:07:49 21 investment advisor?

11:07:50 22 A. What I recall, and my recollection  
11:07:53 23 was refreshed by seeing some of the emails that I  
11:07:55 24 submitted to you, was that he was concerned that  
11:07:59 25 this would possibly interfere in his relationship

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11:08:03 1 with Mr. Madoff.

11:08:05 2 Q. And how -- well, why did Mr. Katz  
11:08:09 3 believe that Sterling Stamos registering as an  
11:08:13 4 investment advisor would interfere with his  
11:08:16 5 relationship with Mr. Madoff?

11:08:17 6 MR. GOUDISS: I object to the form.  
11:08:19 7 Go ahead.

11:08:21 8 A. Could you be more specific.

11:08:26 9 Q. Well, Mr. Katz had investments with  
11:08:28 10 Madoff, right?

11:08:32 11 A. Correct.

11:08:33 12 Q. Okay. And you said that Mr. Katz  
11:08:36 13 expressed concern that Sterling Stamos registering  
11:08:40 14 as an investment advisor could possibly interfere  
11:08:44 15 with his relationship with Madoff.

11:08:46 16 A. Correct.

11:08:47 17 Q. So, what were his concerns?

11:08:50 18 A. I came to understand his concern to  
11:08:53 19 be that Mr. Madoff had expressed his concern to  
11:09:02 20 Mr. Katz.

11:09:05 21 Q. But we're going to get through this,  
11:09:08 22 I promise.

11:09:10 23 What did Mr. Madoff express -- strike  
11:09:15 24 that.

11:09:17 25 What were Mr. Madoff's concerns with

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11:09:22 1 Sterling Stamos registering as an investment  
11:09:25 2 advisor?

11:09:25 3 A. I don't know the answer to that  
11:09:26 4 question. You'd have to ask Mr. Katz.

11:09:29 5 Q. What did Mr. Katz tell you that  
11:09:33 6 Mr. Madoff's concerns were with Sterling Stamos  
11:09:37 7 registering as an investment advisor?

11:09:40 8 A. What I recall is Mr. Katz expressing  
11:09:42 9 the concern that our registration, that is Sterling  
11:09:45 10 Stamos, would require that Mr. Katz disclose all of  
11:09:50 11 his investment holdings, including all business  
11:09:54 12 relationships with Mr. Madoff.

11:09:57 13 Q. Why did that cause Mr. Katz concern?

11:10:02 14 MR. GOUDISS: I object. Go ahead.

11:10:07 15 A. Are you asking me what he thought or  
11:10:10 16 asking what he said to me?

11:10:12 17 Q. That's a valid point. What did he  
11:10:14 18 tell you?

11:10:15 19 A. What I recall is his expressing his  
11:10:18 20 concern that Mr. Madoff was concerned about  
11:10:23 21 confidentiality and things of that nature.

11:10:26 22 Q. Anything else?

11:10:28 23 A. I don't recall anything specifically.  
11:10:30 24 I do recall trying to ascertain what the concerns  
11:10:34 25 were.

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11:10:35 1 Q. And what did you do to try to  
11:10:38 2 ascertain what the concerns were?

11:10:41 3 A. I believe my recollection on this was  
11:10:43 4 refreshed by looking at emails that I had submitted  
11:10:46 5 to you. I believe that we sought the counsel of  
11:10:52 6 Schulte Roth & Zabel, specifically Stephanie  
11:10:54 7 Breslow.

11:10:54 8 Q. Pardon, who was that?

11:10:57 9 A. Stephanie Breslow.

11:11:00 10 Q. When did you seek the counsel of  
11:11:04 11 Schulte Roth in connection with the concerns that  
11:11:06 12 were raised by Mr. Katz?

11:11:08 13 A. In the time frame that we were  
11:11:10 14 considering registration.

11:11:12 15 Q. The initial consideration, so we're  
11:11:14 16 talking 2003?

11:11:15 17 A. On an ongoing basis. But once  
11:11:17 18 Mr. Katz raised that issue, then we sought that. It  
11:11:21 19 was probably later than 2000 -- could have been late  
11:11:24 20 2004, could have been early 2005.

11:11:28 21 Q. Now, just a simple yes or no. I  
11:11:31 22 don't want to ask you about what, the substance of  
11:11:35 23 the counsel that was given to you by Schulte Roth,  
11:11:38 24 but did they provide you advice concerning the issue  
11:11:41 25 of registering as an investment advisor, yes or no?

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11:11:45 1 A. Can you be specific as to what you  
11:11:47 2 mean by "you."

11:11:49 3 Q. Did they provide Sterling Stamos.

11:11:52 4 A. I believe they did through our office  
11:11:54 5 of our general counsel.

11:11:55 6 Q. Okay. Now, in response to the advice  
11:12:00 7 that was given by Schulte Roth, what did you do?  
11:12:03 8 What did Sterling Stamos do?

11:12:05 9 MR. GOUDISS: I object. Can I go off  
11:12:10 10 the record?

11:12:10 11 MR. BOHORQUEZ: Why do we need to go  
11:12:12 12 off the record?

11:12:13 13 MR. GOUDISS: Because I think you're  
11:12:14 14 backing into privileged advice. It's nice to tell  
11:12:17 15 us, you don't have to tell me the substance of what  
11:12:20 16 your lawyers told you, but asking you what you did  
11:12:23 17 after your lawyers told you something is very close.

11:12:29 18 MR. BOHORQUEZ: Are you instructing  
11:12:31 19 him not to answer?

11:12:31 20 MR. GOUDISS: Unless I can confer  
11:12:33 21 with him, I will instruct him, but I understood that  
11:12:36 22 you didn't want to get into privileged information.  
11:12:40 23 I think you're coming dangerously close. I'm trying  
11:12:42 24 to figure out if there's a way to answer your  
11:12:45 25 question without waiving privilege.

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11:12:46 1 MR. BOHORQUEZ: Okay. Let me  
11:12:47 2 rephrase the question.

11:12:48 3 MR. GOUDISS: Okay.

11:12:54 4 BY MR. BOHORQUEZ:

11:12:54 5 Q. Can you explain to me what steps you  
11:12:59 6 took from 2003 when Mr. Katz raised his concerns  
11:13:05 7 with Sterling Stamos registering as an investment  
11:13:09 8 advisor because of his investments with Mr. Madoff,  
11:13:12 9 to the point when Sterling Stamos eventually  
11:13:15 10 registered as an investment advisor in June or July  
11:13:19 11 of '05?

11:13:22 12 A. First of all, I don't know that he  
11:13:24 13 expressed that concern in 2003 or 2004.

11:13:27 14 Q. Okay.

11:13:28 15 A. So is the question, what steps did we  
11:13:32 16 take to become registered? Is that the question  
11:13:35 17 you'd like me to --

11:13:36 18 Q. Well, two questions. What steps did  
11:13:38 19 you take in response to Mr. Katz's concerns that  
11:13:42 20 Sterling Stamos' registration as an investment  
11:13:44 21 advisor could complicate or raise issues with his  
11:13:48 22 investments with Madoff?

11:13:52 23 A. That's too broad a question and  
11:13:54 24 outside my area of expertise. I was not the person  
11:13:57 25 taking the legal steps to set up registration. That

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11:14:00 1 was our general counsel.

11:14:01 2 Q. I'm not asking about the legal steps.  
11:14:04 3 I'm asking -- let me try to rephrase the question  
11:14:06 4 again.

11:14:07 5 You testified that Mr. Katz raised  
11:14:09 6 some concerns with Sterling Stamos registering as an  
11:14:13 7 investment advisor, right?

11:14:14 8 A. Yes.

11:14:14 9 Q. And those concerns that Mr. Katz  
11:14:17 10 expressed were in connection with his investments  
11:14:20 11 with Bernie Madoff, right?

11:14:24 12 A. What I believe he expressed to me was  
11:14:26 13 his concerns about his investments in other business  
11:14:29 14 relationships that he has with Mr. Madoff.  
11:14:34 15 Investments and other business relationships.

11:14:38 16 Q. What did Sterling Stamos do after  
11:14:40 17 Mr. Katz raised those concerns?

11:14:42 18 A. As CEO I recall two steps. First was  
11:14:46 19 to try to alleviate his, Mr. Katz's concerns,  
11:14:50 20 because he was our investor and is our business  
11:14:52 21 partner. And the second was we went, undertook  
11:14:57 22 steps to register ourselves.

11:15:00 23 Q. And what did you do -- let me  
11:15:05 24 rephrase. What did Sterling Stamos do to alleviate  
11:15:11 25 Saul Katz's concerns?



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11:15:13 1           A.           We sought to determine what in fact  
11:15:16 2 would have to be disclosed as a registered  
11:15:19 3 investment advisor.

11:15:22 4           Q.           And when you say you sought to  
11:15:24 5 determine what in fact would have to be disclosed as  
11:15:27 6 a registered investment advisor, does that include  
11:15:31 7 what had to be disclosed with respect to his  
11:15:34 8 investments with Madoff?

11:15:36 9           A.           It may well have included that. I'm  
11:15:39 10 not familiar with the exact form of this, but I  
11:15:43 11 believe there's something called a form ADV that we  
11:15:46 12 file. What would have to be disclosed on that, as  
11:15:50 13 an example.

11:15:51 14           Q.           Were you able -- and when I say you,  
11:15:55 15 Sterling Stamos, your managing team, were you able  
11:15:58 16 to alleviate Mr. Katz's concerns?

11:16:03 17           A.           To some extent, yes, but not fully.

11:16:07 18           Q.           What do you mean by that?

11:16:12 19           A.           In order to fully alleviate his  
11:16:16 20 concerns, we had to create a more formal separation  
11:16:21 21 of our activities with Sterling Equities.

11:16:25 22           Q.           And did you create a more formal  
11:16:28 23 separation between your relationship with Sterling  
11:16:31 24 Equities?

11:16:32 25           A.           I believe so. I recall at least one

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11:16:36 1 specific thing that we did that made us more  
11:16:41 2 separated in a formal sense.

11:16:43 3 Q. And what was that?

11:16:45 4 A. At the time we were trying -- we  
11:16:47 5 shared office space, and I believe we had a period  
11:16:51 6 of time where we had an overlapping information  
11:16:53 7 system. And we were contemplating a move to the  
11:16:56 8 same office space. We decided to do what I recall,  
11:17:01 9 two things.

11:17:02 10 Number one was to move to separate  
11:17:04 11 office spaces. So they would occupy a space in a  
11:17:10 12 different building and we would be occupied in a  
11:17:12 13 different building.

11:17:14 14 And, secondly, we would create,  
11:17:16 15 through ways that are legal and otherwise, a more  
11:17:22 16 definitive separation between the operating partners  
11:17:25 17 of the firm who run the business on a daily basis,  
11:17:29 18 and the role of the Sterling partners as equity  
11:17:33 19 owners of the business but removing them from  
11:17:36 20 operating responsibilities.

11:17:39 21 Q. Thank you. I just want to circle  
11:17:42 22 back to some of the items that you raised.

11:17:47 23 When you say at the time we shared  
11:17:50 24 office space, what time frame are you referring to?

11:17:56 25 A. From inception until the time we

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11:17:59 1 moved to our current address. I believe that was  
11:18:05 2 575 Fifth Avenue. We moved to 450 Park Avenue. And  
11:18:09 3 I don't recall the exact date, but I believe it was  
11:18:11 4 in the 2005 time frame.

11:18:13 5 Q. And when you said "we shared office  
11:18:16 6 space," who, what Sterling entity are you referring  
11:18:20 7 to?

11:18:21 8 A. When I say "we," I'm referring to the  
11:18:25 9 Sterling Stamos operating partners, people who  
11:18:28 10 worked in the business, with Sterling Equities,  
11:18:33 11 which is Mr. Katz and Mr. Wilpon's company.

11:18:38 12 Q. There are, as you probably know,  
11:18:43 13 there are dozens of Sterling related entities. So  
11:18:46 14 when you say Sterling Equities, are you referencing  
11:18:49 15 Sterling Equities specifically or some other  
11:18:51 16 Sterling entity that you shared office space with?

11:18:54 17 A. I don't know how their entities are  
11:18:56 18 called. I do know whatever was headquartered at 575  
11:19:01 19 Fifth Avenue, their Manhattan office, and when you  
11:19:05 20 walked in the door it said Sterling Equities.

11:19:08 21 Q. And who from Sterling Equities, what  
11:19:10 22 individuals had their offices at 575 Fifth Avenue?

11:19:15 23 A. I don't recall all of their names,  
11:19:17 24 but I recall that Mr. Wilpon had an office there and  
11:19:20 25 Mr. Katz had an office there, and I believe

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11:19:22 1 Mr. Marvin Tepper had an office there.

11:19:25 2 Q. And when did Sterling Stamos move to  
11:19:30 3 Park Avenue?

11:19:31 4 A. I don't recall the exact date. I  
11:19:33 5 believe it was 2005.

11:19:47 6 Q. The second step that you said you  
11:19:49 7 took was to create a more definitive separation  
11:19:53 8 between the operating partners of the firm who run  
11:19:55 9 the business on a daily basis and the role of the  
11:19:58 10 Sterling partners as equity owners of the business.  
11:20:02 11 Can you explain to me in further detail what you  
11:20:04 12 mean by that?

11:20:05 13 A. Can you be more specific as to what  
11:20:07 14 you would like me to discuss?

11:20:13 15 Q. Struggling how to ask for a more  
11:20:16 16 specific question that I want more specificity for.

11:20:20 17 Okay, you said that the second step  
11:20:23 18 you took was by creating more definitive separation  
11:20:26 19 between the operating partners of the firm who run  
11:20:29 20 the business on a daily business and the role of the  
11:20:31 21 Sterling partners as equity owners of the business.

11:20:35 22 So, before you took that step, what  
11:20:37 23 were the Sterling partners' roles with respect to  
11:20:43 24 Sterling Stamos?

11:20:44 25 A. I can give you an example.

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11:20:47 1 Prior to that decision, Mr. Katz,  
11:20:51 2 Saul Katz, would often participate in our investment  
11:20:55 3 committee meetings. Post that decision, we created  
11:21:04 4 a separation from our investment committee and the  
11:21:06 5 business decisions about the firm.

11:21:13 6 Q. When did Sterling Stamos implement  
11:21:16 7 that separation?

11:21:17 8 A. I believe it was at the same time  
11:21:18 9 that we became registered and made the move, the  
11:21:21 10 physical move. In the 2005 time frame.

11:21:26 11 Q. Okay. So Mr. Saul Katz was a member  
11:21:33 12 of the investment committee from inception to  
11:21:36 13 roughly June or July of '05?

11:21:39 14 A. I don't recall his specific dates and  
11:21:42 15 I don't even recall whether we had a, quote, formal  
11:21:47 16 investment committee, but I recall him participating  
11:21:49 17 in investment committee discussions prior to that  
11:21:52 18 period of time, during that time period.

11:21:56 19 Q. Okay. And these investment committee  
11:21:57 20 meetings or discussions, are these monthly,  
11:22:04 21 biweekly, quarterly, are they periodic meetings?

11:22:08 22 A. Periodic meetings.

11:22:09 23 Q. So they're not held on a monthly or  
11:22:12 24 quarterly basis?

11:22:13 25 A. At what time frame are you speaking

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11:22:14 1 of?

11:22:15 2 Q. Let me be specific. From the time  
11:22:17 3 frame between June of '02 to June of '05, which is  
11:22:21 4 roughly when you registered as an investment  
11:22:23 5 advisor.

11:22:24 6 A. Um-hum.

11:22:24 7 Q. These investment committee meetings  
11:22:26 8 that you had at Sterling Stamos, were they held on a  
11:22:32 9 biweekly basis or a monthly basis or a quarterly  
11:22:35 10 basis?

11:22:35 11 A. What I recall is during that time  
11:22:38 12 frame we would meet on a regular but ad hoc basis.  
11:22:43 13 I don't recall whether we had weekly, biweekly,  
11:22:46 14 quarterly meetings. I recall meeting on a regular  
11:22:51 15 basis but on an ad hoc basis.

11:22:53 16 Q. So, roughly speaking, once a month or  
11:22:56 17 every other month? How often would you meet during  
11:23:00 18 the year?

11:23:00 19 A. It's hard to characterize a meeting  
11:23:04 20 of an investment committee when you have only four  
11:23:07 21 or five members of your firm. So, in one sense, we  
11:23:11 22 could be meeting literally every day to review  
11:23:23 23 ideas, during that time frame.

11:23:25 24 Q. During that time frame. Would  
11:23:27 25 Mr. Saul Katz participate in these meetings on a

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11:23:31 1 daily basis?

11:23:33 2 A. I don't recall him participating on a  
11:23:35 3 daily basis. I recall him participating on a more  
11:23:39 4 periodic basis when we had a decision to make.

11:23:43 5 Q. And what types of decisions were  
11:23:48 6 Mr. Saul Katz involved in?

11:23:51 7 A. During that time frame --

11:23:54 8 Q. Yes.

11:23:55 9 A. -- he was involved in decisions about  
11:23:57 10 managers that we should invest in and managers that  
11:24:00 11 we should not invest in. We involved him in those  
11:24:04 12 discussions.

11:24:07 13 Q. Any other types of discussions that  
11:24:10 14 Mr. Katz was involved in?

11:24:12 15 A. He was intimately involved in the  
11:24:14 16 financial and business aspects of the business.

11:24:19 17 Q. When you say the financial aspects of  
11:24:22 18 the business, what do you mean by that?

11:24:25 19 A. For example, payroll, budget,  
11:24:31 20 profitability, capital expenditures.

11:24:35 21 Q. So the operational side?

11:24:37 22 A. Yes, the operational financial side  
11:24:39 23 of the business, as an owner of the business.

11:24:42 24 Q. When you say that Mr. Saul Katz was  
11:24:45 25 intimately involved in the operational side of the

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11:24:48 1 business, what do you mean by that?

11:24:49 2 A. During the early stages of the  
11:24:52 3 company we didn't make any, that I recall,  
11:24:53 4 significant business decisions without his approval.  
11:24:56 5 That changed as the firm evolved.

11:25:02 6 Q. Did that change after you  
11:25:04 7 registered -- as a result, let me rephrase it. Did  
11:25:06 8 that change as a result of registering as an  
11:25:10 9 investment advisor?

11:25:11 10 MR. GOUDISS: I object. Go ahead.

11:25:13 11 A. I can't answer the question whether  
11:25:16 12 it was as a result or whether it was part of a  
11:25:19 13 process.

11:25:19 14 Q. When did that change?

11:25:22 15 A. I believe it changed  
11:25:23 16 contemporaneously over the same time frame in the  
11:25:27 17 context of the evolution of the firm.

11:25:31 18 Q. But did it have anything to do with  
11:25:34 19 Sterling Stamos' registering as an investment  
11:25:36 20 advisor?

11:25:39 21 A. It may well have been part of the  
11:25:43 22 process that we went through to create separation  
11:25:45 23 between the financial management of the business and  
11:25:49 24 the investment side of the business.

11:25:55 25 Q. Other than the two steps that we've



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11:25:58 1 gone over, the separation of the office space and  
11:26:01 2 the separation of Mr. Katz's role in the investment  
11:26:08 3 side of the business, are there any other steps that  
11:26:10 4 you took?

11:26:11 5 A. When you refer to "you," you mean the  
11:26:14 6 firm?

11:26:14 7 Q. Yes.

11:26:15 8 A. I believe the firm took other steps  
11:26:17 9 but you would have to confer with our counsel. I  
11:26:21 10 believe we structured ourselves differently in terms  
11:26:24 11 of how our documents were written, for example. But  
11:26:28 12 that's not something I have any knowledge of,  
11:26:31 13 specifically.

11:26:31 14 Q. Well, what knowledge do you have,  
11:26:33 15 generally speaking?

11:26:35 16 A. Generally speaking, my understanding  
11:26:37 17 is that we created a more -- a separate, more  
11:26:44 18 separate structure so that we would have board  
11:26:48 19 meetings to discuss business issues and have  
11:26:51 20 investment committee meetings to discuss investment  
11:26:54 21 issues, and that those two would remain separate, to  
11:27:01 22 make clear that Mr. Katz, in particular, and the  
11:27:04 23 Sterling Equities partners were not involved in the  
11:27:07 24 investment decision-making of the firm.

11:27:15 25 Q. So I take it from your response that

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11:27:19 1 Saul Katz was a member of the board?

11:27:22 2 A. Was and is.

11:27:23 3 Q. And is. Okay. Has he been a member  
11:27:26 4 of the board since inception?

11:27:31 5 A. I pause a bit. I don't recall when  
11:27:32 6 the board was formed, but whenever the board was  
11:27:35 7 formed he was, to my recollection, always a member  
11:27:38 8 of the board.

11:27:38 9 Q. Okay. When the board was formed, who  
11:27:41 10 else were members of the board at its inception?

11:27:45 11 A. I don't recall who the original  
11:27:46 12 members of the board were. I know who the current  
11:27:49 13 members of the board are.

11:27:50 14 Q. And who are the current members of  
11:27:52 15 the board?

11:27:53 16 A. To the best of my knowledge, current  
11:27:54 17 members are Mr. Saul Katz, Spiro Stamos, my father,  
11:28:04 18 myself and then three members of the board are  
11:28:08 19 represented by executives at Merrill Lynch. Bank of  
11:28:15 20 America/Merrill Lynch.

11:28:17 21 Q. Does the board have formal meetings?

11:28:20 22 A. Yes.

11:28:24 23 Q. How often does the board meet?

11:28:29 24 A. As much as four times a year.

11:28:32 25 Q. So quarterly meetings?

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11:28:34 1 A. Quarterly meetings. Occasionally  
11:28:36 2 miss a quarterly meeting, but we try to have  
11:28:40 3 quarterly meetings.

11:28:41 4 Q. And these quarterly meetings have  
11:28:43 5 been held since inception of the board?

11:28:45 6 A. I don't recall whether that's been  
11:28:47 7 since inception. I do recall what has occurred over  
11:28:51 8 the last two or three years.

11:28:54 9 Q. Have you had these quarterly meetings  
11:29:00 10 since Merrill Lynch bought its interest in Sterling  
11:29:03 11 Stamos?

11:29:04 12 A. I believe so.

11:29:04 13 Q. And that was June of '07?

11:29:06 14 A. June of '07.

11:29:08 15 Q. Was that also June 17th?

11:29:11 16 A. No. I believe that was June 30th or  
11:29:13 17 July 1st, 2007.

11:29:21 18 Q. Okay.

11:29:21 19 MR. GOUDISS: Off the record. When  
11:29:22 20 you hit a breaking spot, would you let us know.

11:29:28 21 MR. BOHORQUEZ: If you want to take a  
11:29:29 22 break now, that's -- well, actually, how much time  
11:29:30 23 is left on the tape?

11:29:37 24 THE VIDEOGRAPHER: About seven  
25 minutes left on the tape.

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1 MR. BOHORQUEZ: Yeah, If you'd like  
2 to break now, that's fine. He can just change  
3 tapes. I like to time it around the tapes so we  
4 don't waste time.

5 MR. GOUDISS: That's fine. Thank  
6 you.

11:29:38 7 THE VIDEOGRAPHER: Going off the  
11:29:39 8 record, the time is 11:30. This ends tape number 1.

11:29:55 9 (Recess taken.)

11:53:27 10 THE VIDEOGRAPHER: We are back on the  
11:53:38 11 record. The time is 11:54. This is tape number 2.

11:53:46 12 BY MR. BOHORQUEZ:

11:53:46 13 Q. Welcome back, Mr. Stamos. I want to  
11:53:48 14 show you what we're going to be marking as Exhibit  
11:54:02 15 1. We'll do PS-1.

11:54:02 16 (Exhibit PS-1 marked for  
11:54:06 17 identification.)

11:54:14 18 Q. Mr. Stamos, what I've handed you is  
11:54:18 19 an email chain between Maria Gagne and Gillian  
11:54:23 20 Peoples from August 16th, 2004 concerning an  
11:54:27 21 investment committee. I just want to ask you a  
11:54:29 22 couple follow-up questions with respect to the  
11:54:32 23 investment committee we discussed earlier this  
11:54:34 24 morning based off of this document. Let me know  
11:54:36 25 when you're ready.

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11:54:37 1 A. I'm ready.

11:54:42 2 Q. Who is Maria Gagne? Do you know who  
11:54:42 3 she is?

11:54:47 4 A. An administrative assistant, was an  
11:54:49 5 administrative assistant in the firm.

11:54:51 6 Q. In August of 2004, I suppose?

11:54:55 7 A. Yes.

11:54:55 8 Q. And Gillian Peoples, was she also at  
11:55:00 9 Sterling Stamos at that time?

11:55:01 10 A. Yes.

11:55:01 11 Q. Earlier this morning we had discussed  
11:55:04 12 that Sterling Stamos had an investment committee and  
11:55:08 13 that you weren't sure as to how formal or informal  
11:55:16 14 it was. Is the investment committee that's  
11:55:18 15 referenced in this email the same investment  
11:55:20 16 committee that you testified to this morning or is  
11:55:23 17 it a different investment committee?

11:55:25 18 MR. GOUDISS: I object to the form of  
11:55:26 19 the question. Go ahead.

11:55:28 20 A. I don't recall which investment  
11:55:30 21 committee you were referring to that I testified to.

11:55:33 22 Q. Okay, let's back up.

11:55:38 23 Reading this email and the list of  
11:55:41 24 members identified in the email, do you know what  
11:55:45 25 investment committee this is referencing?

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11:55:52 1 A. I believe I do.

11:55:53 2 Q. And what do you believe it is?

11:55:57 3 A. I believe this is a group of advisors  
11:56:01 4 who would provide counsel to us about potential  
11:56:06 5 investments.

11:56:10 6 Q. I just want to go through the list of  
11:56:12 7 individuals and if you can identify for me who they  
11:56:15 8 are.

11:56:16 9 Ellen Horing -- how do you pronounce  
11:56:19 10 that?

11:56:21 11 A. Horing.

11:56:21 12 Q. Horing. Who is she?

11:56:23 13 A. She is, I believe she was at the time  
11:56:27 14 either an investor with us and/or a part-time  
11:56:34 15 employee of us at the time.

11:56:35 16 Q. And what was her position as a  
11:56:37 17 part-time employee at that time?

11:56:44 18 A. Long/short equity analyst.

11:56:48 19 Q. Is she still at Sterling Stamos?

11:56:51 20 A. No.

11:56:51 21 Q. When did she leave?

11:56:53 22 A. I don't recall when she left.

11:56:55 23

11:57:00 24 *REDACTED*

11:57:03 25

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12:04:35 9 Q. The next list is Chuck Klein.

12:04:38 10 A. Yes.

12:04:39 11 Q. Next on the list is Chuck Klein. Is  
12:04:41 12 that the same Chuck Klein from American Securities?

12:04:46 13 A. Yes.

12:04:47 14 Q. And why was Mr. Klein on this list of  
12:04:53 15 group of advisors?

12:04:55 16 A. He was one of the original  
12:04:57 17 individuals that Mr. Katz introduced me to as  
12:05:02 18 someone who would introduce us to managers in hedge  
12:05:06 19 funds and private equity.

12:05:09 20 Q. And when did you first -- when did  
12:05:12 21 Saul Katz introduce you to Mr. Klein?

12:05:15 22 A. I don't recall the exact date. I  
12:05:17 23 believe it was sometime in the 1990s.

12:05:30 24 Q. And did you have discussions with  
12:05:33 25 Mr. Klein about the formation of Sterling Stamos?

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12:05:39 1 A. Yes.

12:05:39 2 Q. And what did you discuss with

12:05:41 3 Mr. Klein with respect to the formation of Sterling

12:05:44 4 Stamos?

12:05:48 5 A. Saul Katz and I asked his counsel

12:05:51 6 about whether it would make sense to set up Sterling

12:05:56 7 Stamos, at the time SP Capital. Sought his counsel.

12:06:01 8 Q. And when was that? When did you have

12:06:03 9 that discussion?

12:06:05 10 A. I believe it was in early 2002.

12:06:08 11 Q. And what did Mr. Klein say?

12:06:14 12 A. What did he say to me?

12:06:16 13 Q. Um-hum.

12:06:18 14 A. He thought it would be a good idea to

12:06:20 15 set up a diversified portfolio of managers to invest

12:06:23 16 in.

12:06:24 17 Q. Did he say anything else to you with

12:06:26 18 respect to that question?

12:06:27 19 A. Yes.

12:06:28 20 Q. What else did he say?

12:06:30 21 A. He thought that I would be good in

12:06:34 22 that role.

12:06:36 23 Q. And what role was that?

12:06:38 24 A. As an individual who could meet with

12:06:41 25 managers and make an assessment as to whether they

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12:06:44 1 would be good for a portfolio.

12:06:49 2 Q. Okay. Do you know if Mr. Klein had  
12:06:54 3 any investments with Madoff?

12:06:58 4 A. I don't know for a fact what his  
12:07:00 5 investments were, but I do recall him saying to me  
12:07:03 6 that he had investments with Mr. Madoff, I believe  
12:07:08 7 that he said that to me.

12:07:09 8 Q. And what did he tell you about his  
12:07:11 9 investments with Madoff?

12:07:14 10 A. Can you be more specific?

12:07:16 11 Q. I really can't. What did he tell you  
12:07:18 12 about his investments with Madoff?

12:07:20 13 MR. GOUDISS: The fact of them?

12:07:24 14 A. Of being an investor?

12:07:26 15 Q. Yes.

12:07:27 16 A. As I recall, he said that he, I  
12:07:30 17 believe like Saul Katz, was also an investor with  
12:07:33 18 Mr. Madoff. I believe he expressed the concern that  
12:07:39 19 I had had as well of single-manager risk, having too  
12:07:43 20 much capital in one manager. And that he had bought  
12:07:48 21 some form of insurance for that single-manager risk.

12:08:06 22 Q. Did he tell you anything else about  
12:08:09 23 the insurance -- actually, let me back up. Strike  
12:08:12 24 that.

12:08:12 25 So Mr. Klein, as you understand it,

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12:08:16 1 bought insurance for his Madoff investments?

12:08:19 2 A. I recall him expressing to me that he  
12:08:23 3 had purchased some kind of insurance. That's all I  
12:08:27 4 recall.

12:08:27 5 Q. And you recall that he had purchased  
12:08:31 6 the insurance for his Madoff investments because of  
12:08:35 7 this single-manager risk issue?

12:08:39 8 A. I'm not sure if that's why he bought  
12:08:41 9 the insurance. I do believe that that was part of  
12:08:45 10 the discussion that we had. Single-manager risk,  
12:08:49 11 the topic.

12:08:50 12 Q. Did Mr. Klein express any other  
12:08:52 13 reasons for why he bought insurance for his Madoff  
12:08:56 14 investments?

12:08:56 15 A. At that time?

12:08:57 16 Q. At that time.

12:08:59 17 A. I don't recall.

12:09:00 18 Q. Did Mr. Klein express any other  
12:09:04 19 reasons at any time to you as to why he purchased  
12:09:07 20 insurance for his Madoff investments?

12:09:12 21 A. If at any time includes 2007, 2008,  
12:09:16 22 it is possible, but I don't recall a specific  
12:09:19 23 conversation with him.

12:09:21 24 Q. When you say it is possible, what do  
12:09:23 25 you mean by that?



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12:09:28 1           A.           A number of individuals expressed  
12:09:31 2 concerns to me about Madoff as I became more  
12:09:35 3 familiar with the world of investing over the course  
12:09:38 4 of time. He may have been one of those people, but  
12:09:40 5 I don't recall.

12:09:44 6           Q.           Other than Mr. Klein, what other  
12:09:47 7 individuals expressed to you concerns about  
12:09:53 8 investing with Madoff?

12:09:54 9           A.           I can't recall all of the individuals  
12:09:56 10 who expressed concerns over the years. I can recall  
12:09:59 11 an example.

12:10:00 12           Q.           Let's start with an example.

12:10:03 13           A.           I recall a conversation with Kevin  
12:10:07 14 Dunleavy, who was an executive at Merrill Lynch, in  
12:10:11 15 which he expressed a concern about Mr. Madoff, being  
12:10:14 16 both a broker-dealer and a fund manager, and that  
12:10:18 17 that was a concern that he had.

12:10:23 18           Q.           And when did you have this discussion  
12:10:25 19 with Kevin Dunleavy?

12:10:29 20           A.           I believe it was sometime in the  
12:10:31 21 period 2007 and 2008.

12:10:37 22           Q.           And how did Mr. Dunleavy express that  
12:10:41 23 concern to you? Was that in person, over the phone,  
12:10:46 24 by email?

12:10:47 25           A.           I recall an in-person conversation in

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12:10:50 1 my office at 450 Park Avenue.

12:10:54 2 Q. And who else was present at that  
12:10:58 3 conversation with Mr. Dunleavy?

12:11:02 4 A. It is possible that there was more  
12:11:05 5 than one conversation. I think it's probable there  
12:11:08 6 was more than one conversation with Mr. Dunleavy in  
12:11:11 7 my offices about his concerns. Or concern.

12:11:17 8 Q. How many meetings did you have with  
12:11:20 9 Mr. Dunleavy at your office concerning -- with  
12:11:23 10 respect to his concerns with Madoff?

12:11:26 11 A. I don't know the number. I met with  
12:11:27 12 Mr. Dunleavy on a regular basis, as he was one of my  
12:11:31 13 board members.

12:11:33 14 Q. When was the first meeting you had  
12:11:37 15 with Mr. Dunleavy when he raised his concerns with  
12:11:41 16 Madoff?

12:11:41 17 A. I don't recall the first time. I can  
12:11:45 18 remember a conversation or two in my office.

12:11:50 19 Q. Was this before or after Merrill  
12:11:54 20 Lynch bought into Sterling Stamos in roughly June of  
12:11:57 21 '07?

12:11:58 22 A. I don't recall whether it was in the  
12:12:00 23 period just before or the period just after.

12:12:03 24 Q. But we can roughly estimate that it  
12:12:07 25 was sometime in June of '07?

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12:12:10 1 A. Plus or minus six months to a year,  
12:12:13 2 in that time frame.

12:12:15 3 Q. And why did Mr. Dunleavy raise his  
12:12:20 4 concerns with Madoff with you?

12:12:23 5 MR. GOUDISS: I object. Go ahead.

12:12:25 6 A. Are you asking me what he said to me?  
12:12:28 7 I don't know -- I mean, it's hard for me to  
12:12:31 8 speculate as to why, but I can tell you what he said  
12:12:33 9 to me.

12:12:34 10 Q. Let's start with what he said to you.

12:12:36 11 A. He expressed concern that my  
12:12:38 12 partners, Mr. Wilpon and Mr. Katz, had a substantial  
12:12:42 13 amount of assets with Mr. Madoff.

12:12:47 14 Q. And what -- let me rephrase.

12:12:56 15 What were the amount of assets at  
12:13:00 16 that time that you understood that Mr. Wilpon and  
12:13:02 17 Mr. Katz had with Madoff?

12:13:05 18 A. I don't know the exact amount. I  
12:13:07 19 know that it was in the range of two to \$400 million  
12:13:11 20 of assets.

12:13:16 21 Q. Other than the amount of money that  
12:13:18 22 Mr. Katz and Mr. Wilpon had invested with Madoff,  
12:13:24 23 and the single-manager risk -- I'm sorry, it was a  
12:13:28 24 term of art that you raised. What was that?

12:13:31 25 A. Single-manager risk.

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12:13:32 1 Q. Right, okay. Let me rephrase.

12:13:36 2 Other than the amount of money that  
12:13:38 3 Mr. Wilpon and Mr. Katz had invested with Madoff at  
12:13:41 4 that time and the single-manager risk issue that  
12:13:46 5 Mr. Dunleavy raised, were there any other concerns  
12:13:49 6 that he raised with you with respect to Madoff?

12:13:52 7 MR. GOUDISS: I object to the form.  
12:13:53 8 Go ahead.

12:13:53 9 A. I believe I said that I had a  
12:13:55 10 discussion with Mr. Klein about single-manager risk.  
12:13:57 11 I believe that I said that Mr. Dunleavy expressed  
12:14:00 12 the concern that he was a broker-dealer and cleared  
12:14:04 13 his own trades, as well as being an investment  
12:14:07 14 manager.

12:14:09 15 Q. Okay. Thank you for clearing that  
12:14:10 16 up.

12:14:11 17 Did Mr. Dunleavy raise any other  
12:14:14 18 concerns with you that he had with Madoff?

12:14:18 19 A. At some point, yes. I'm not sure if  
12:14:20 20 it was at that meeting or at some prior -- or, some  
12:14:23 21 later meeting.

12:14:24 22 Q. And what were those other concerns?

12:14:26 23 A. Generally, that Merrill Lynch or any  
12:14:32 24 other institutional entity like Merrill Lynch would  
12:14:36 25 not invest in a manager that cleared his own trades,

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12:14:42 1 because of operation of due diligence issues.

12:14:46 2 More specifically, he expressed  
12:14:49 3 concern of a rumor that he had heard that it was  
12:14:51 4 possible that Mr. Madoff was using information from  
12:14:58 5 his broker-dealer to help him as an investment  
12:15:03 6 manager. And I believe the phrase he used was that  
12:15:06 7 it could be in the context of something like  
12:15:09 8 front-running.

12:15:09 9 Q. What do you understand front-running  
12:15:12 10 to be?

12:15:13 11 A. My understanding of it is is that you  
12:15:15 12 would -- that a broker, making a set of trades,  
12:15:19 13 could put his trade either in front of or behind the  
12:15:23 14 trade, to their advantage. In front of the trade or  
12:15:27 15 behind the trade, to their advantage.

12:15:31 16 Q. What other concerns did Mr. Dunleavy  
12:15:35 17 raise with you about Madoff?

12:15:36 18 MR. GOUDISS: I object. Go ahead.

12:15:38 19 A. What I recall is what I've just said.  
12:15:40 20 He may have expressed other things but those are the  
12:15:44 21 things I recall.

12:15:47 22 Q. And what was your reaction to these  
12:15:54 23 concerns that Mr. Dunleavy raised?

12:15:59 24 A. By 2007 I shared the concern, the  
12:16:04 25 first concern, which is the concern about having a

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12:16:08 1 broker-dealer who cleared his own trades being an  
12:16:12 2 investment manager. I also shared the concern of  
12:16:18 3 having too much capital in any one manager.

12:16:23 4 Q. And how did you come to the  
12:16:25 5 conclusion that those two issues were of concern to  
12:16:28 6 you?

12:16:30 7 A. It's part of my evolving knowledge of  
12:16:32 8 the industry over the course of five or six years.

12:16:42 9 Q. Did you -- let me back up to  
12:16:45 10 Mr. Klein. Mr. Klein is the one who raised the  
12:16:48 11 single-manager risk issue with you, right?

12:16:51 12 A. I believe I said that we had the  
12:16:53 13 discussion about single-manager risk. I'm not sure  
12:16:55 14 whether I raised it or he raised it.

12:16:58 15 Q. And can you explain to me  
12:17:01 16 specifically what that means.

12:17:02 17 A. I can explain it generally.

12:17:04 18 Q. That's fine.

12:17:05 19 A. Generally, the notion of portfolio  
12:17:07 20 construction would suggest that one ought to put  
12:17:11 21 their investments into a diversified portfolio of  
12:17:15 22 managers, not into a single manager. As a rough  
12:17:19 23 rule of thumb, no more than 10 percent in any one  
12:17:23 24 manager, for example.

12:17:25 25 Q. Other than the single-manager risk

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12:17:28 1 issue, did you discuss any other concerns that you  
12:17:32 2 or Mr. Klein may have had, with Mr. Klein,  
12:17:39 3 concerning Madoff?

12:17:41 4 A. I believe the answer to that would be  
12:17:43 5 yes, because there are derivative issues of  
12:17:46 6 single-manager risk that we would have discussed.

12:17:49 7 Q. What are the derivative issues of  
12:17:52 8 single-manager risk?

12:17:54 9 A. For example, what does the -- what is  
12:17:58 10 the impact on you as an investor if the manager is  
12:18:02 11 hit by a bus.

12:18:06 12 Q. Actually, I understand that one. Are  
12:18:10 13 there any other derivative issues?

12:18:14 14 A. Yes. What if the manager has an  
12:18:18 15 operational issue in their back office that makes  
12:18:23 16 it -- that damages the business and, therefore,  
12:18:26 17 stops them from being able to invest well.

12:18:29 18 Q. Are there any other derivative  
12:18:33 19 issues?

12:18:34 20 A. Are you saying in theory or to that  
12:18:36 21 specific conversation?

12:18:37 22 Q. Generally.

12:18:38 23 A. Generally, in theory, one is worried  
12:18:41 24 about single-manager risk for a whole host of  
12:18:44 25 derivative issues. Anything that can go wrong with

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12:18:47 1 the manager gets magnified if you're in only one  
12:18:52 2 manager.

12:18:53 3 Q. And of those host of issues,  
12:18:56 4 derivative issues that you have with single-manager  
12:19:00 5 risk, what specific issues did you discuss with  
12:19:03 6 Mr. Klein, other than the two you just raised?

12:19:06 7 A. I don't recall at that time having  
12:19:07 8 more specific conversation than that.

12:19:10 9 Q. What about any other time?

12:19:15 10 A. Covers too broad a period for me to  
12:19:18 11 have a specific memory. I don't recall any other  
12:19:21 12 specific conversations.

12:19:22 13 Q. Do you recall any conversations?

12:19:25 14 A. I recall general conversations that I  
12:19:28 15 had with Mr. Klein and with Mr. Katz.

12:19:33 16 Q. Let's first discuss the general  
12:19:37 17 conversations you had with Mr. Klein. Other than  
12:19:40 18 the one that we've discussed, the initial one, what  
12:19:43 19 other ones did you have?

12:19:46 20 A. I don't recall the specific time or  
12:19:48 21 place, but I recall having conversations with  
12:19:52 22 Mr. Klein that may or may not have included Mr. Katz  
12:19:56 23 in the room, because we often met together, the  
12:20:01 24 three of us. But I do recall discussing with him  
12:20:05 25 the concern of what would happen to my partner's



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12:20:11 1 portfolio that was with Mr. Madoff, if Mr. Madoff  
12:20:15 2 were to decide to retire because of his age.

12:20:17 3 Q. And when you say your partner's  
12:20:19 4 portfolio, who are you referring to specifically?

12:20:22 5 A. The Sterling Equities group, Mr. Katz  
12:20:26 6 and Mr. Wilpon being the larger shareholders, but  
12:20:30 7 the entire group referred to as Sterling Equities.

12:20:33 8 Q. And what did Mr. Klein say, with  
12:20:35 9 respect to that question?

12:20:37 10 A. I believe he shared my concern and  
12:20:39 11 thought, as I did, that diversification would be the  
12:20:44 12 right answer.

12:20:44 13 Q. Did you have any other -- do you  
12:20:48 14 recall any other discussions with Mr. Klein  
12:20:50 15 concerning Mr. Madoff?

12:20:53 16 A. I don't recall specific conversations  
12:20:56 17 with Mr. Klein that I can recall at this point.

12:21:02 18 Q. You mentioned operational issues that  
12:21:05 19 could arise from a single-manager risk. Could you  
12:21:10 20 elaborate on that a little more?

12:21:12 21 MR. GOUDISS: I object. Go ahead.

12:21:13 22 A. Can you be more specific?

12:21:14 23 Q. Pardon?

12:21:16 24 A. I don't know what the nature of the  
12:21:17 25 question is.

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12:21:18 1 Q. What type of operational issues arise  
12:21:20 2 from single-manager risk?

12:21:25 3 A. Operational issues arise in the  
12:21:26 4 context of all managers. The issue with  
12:21:30 5 single-manager risk is that it is concentrated in  
12:21:33 6 one manager.

12:21:34 7 Q. So they're magnified because it's one  
12:21:37 8 manager?

12:21:38 9 A. Yes.

12:21:39 10 Q. Generally speaking, from a due  
12:21:43 11 diligence perspective, what are some operational  
12:21:47 12 issues that you look into when reviewing an  
12:21:50 13 investment manager?

12:21:51 14 MR. GOUDISS: I object. Go ahead.

12:21:52 15 A. I'm sorry, can you be more specific?  
12:21:56 16 Generally speaking? I don't know what you're asking  
12:21:59 17 for. Examples?

12:22:01 18 Q. Yes. Examples of operational issues  
12:22:03 19 that arise during the due diligence review of  
12:22:07 20 investment managers.

12:22:09 21 A. Does the investment manager have  
12:22:11 22 appropriate legal documentation. Does the  
12:22:13 23 investment manager have appropriate back-office  
12:22:18 24 staff to execute trades, for example.

12:22:23 25 Q. Anything else off the top of your

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12:22:25 1 head?

12:22:25 2 A. Does the investment manager have an  
12:22:28 3 adequate amount of assets under management to  
12:22:31 4 maintain the operations of his or her business.

12:22:33 5 Q. Anything else?

12:22:34 6 A. Are they a going concern,  
12:22:36 7 financially, will they be able to continue to invest  
12:22:38 8 in the future. There's a whole host of issues like  
12:22:45 9 that.

12:22:45 10 Q. I think we'll probably go through  
12:22:47 11 them in greater detail later.

12:22:54 12 You had mentioned that one or maybe  
12:22:57 13 more of the discussions that you had with Mr. Klein  
12:23:01 14 concerning Madoff Mr. Katz may have been in  
12:23:07 15 attendance. Is that right?

12:23:09 16 A. Yes.

12:23:11 17 Q. Can you tell me -- tell me about the  
12:23:17 18 discussions that you had with Mr. Klein when  
12:23:20 19 Mr. Saul Katz was in attendance.

12:23:22 20 A. I believe that was the answer I just  
12:23:24 21 gave. I don't recall them being different.

12:23:28 22 Q. I see. So, just so the record is  
12:23:32 23 clear, the issues that we discussed earlier that you  
12:23:36 24 raised or that were discussed with Mr. Klein, you  
12:23:40 25 believe them to be the same issues that were

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12:23:43 1 discussed at meetings that Mr. Katz was in  
12:23:46 2 attendance at?

12:23:49 3 A. I believe that that conversation with  
12:23:50 4 Mr. Klein is similar to the discussion that I had  
12:23:54 5 with Mr. Klein and Mr. Katz, both present. I can't  
12:23:59 6 recall whether they were both present at the same  
12:24:01 7 time or whether they were separate meetings.

12:24:08 8 Q. And at the meetings that you had with  
12:24:11 9 Mr. Katz, whether Mr. Klein was there or not, that  
12:24:16 10 the issues that you set forth concerning Madoff were  
12:24:22 11 discussed, what was Mr. Katz's reaction?

12:24:27 12 A. What time frame are you referring to?

12:24:30 13 Q. Well, let's go back to the beginning.  
12:24:35 14 I think you said that very early on you had a  
12:24:38 15 discussion with Mr. Klein where he raised the issue  
12:24:42 16 that he had insurance with Madoff, or covering his  
12:24:47 17 Madoff investments, right?

12:24:48 18 A. The insurance piece that he raised, I  
12:24:50 19 believe raised with me, I'm not sure that he raised  
12:24:53 20 that in front of Mr. Katz or not.

12:24:56 21 Q. So you believe the discussion you had  
12:24:58 22 with Mr. Klein concerning his insurance coverage of  
12:25:02 23 his Madoff investments was a separate discussion?

12:25:05 24 A. I believe it may have been just with  
12:25:07 25 me.

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12:25:10 1 Q. Did you have any discussions with  
12:25:13 2 Saul Katz concerning Mr. Klein's insurance coverage  
12:25:17 3 of his Madoff investments?

12:25:19 4 A. I don't recall whether I did or not.

12:25:28 5 Q. So let's go back to some of the  
12:25:33 6 issues that you discussed with Mr. Klein concerning  
12:25:38 7 Madoff.

12:25:39 8 One issue that you discussed was  
12:25:46 9 single-manager risk. Did you discuss that issue  
12:25:50 10 with Mr. Katz at any time?

12:25:52 11 A. Yes.

12:25:56 12 Q. Can you recall when was the first  
12:25:58 13 time you discussed the single-manager risk issue  
12:26:01 14 with Mr. Katz?

12:26:02 15 A. I don't recall the first time. I  
12:26:04 16 recall the general time frame.

12:26:06 17 Q. Okay. What was the general time  
12:26:08 18 frame?

12:26:09 19 A. Sometime after I became an individual  
12:26:11 20 investor with Mr. Madoff, which was sometime after  
12:26:15 21 1998.

12:26:17 22 Q. I believe it was March of '98, I  
12:26:20 23 think, from our records is when you made your first  
12:26:23 24 investment with Madoff.

12:26:25 25 A. That sounds correct.

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12:26:27 1 Q. How did you come to invest with  
12:26:30 2 Madoff at that time?

12:26:31 3 A. Mr. Katz suggested that I invest with  
12:26:33 4 Mr. Madoff.

12:26:35 5 Q. And what did Mr. Katz tell you about  
12:26:39 6 investing with Madoff?

12:26:41 7 A. Told me that he was a very good  
12:26:44 8 investor, that Mr. Katz and his partners had  
12:26:48 9 invested with Mr. Madoff for many years and that  
12:26:50 10 they had had stable, consistent returns for many  
12:26:54 11 years with him.

12:26:55 12 Q. Did he say anything else in that  
12:26:58 13 initial discussion?

12:26:58 14 A. Yes.

12:26:59 15 Q. What else did he say?

12:27:00 16 A. He suggested that I put a portion of  
12:27:02 17 my capital with Mr. Madoff and that I continue to  
12:27:05 18 manage a portion of the capital myself.

12:27:09 19 Q. And this is in the 1998 time frame  
12:27:12 20 we're talking about?

12:27:14 21 A. '98, '99, 2000, 2001.

12:27:17 22 Q. Before Saul Katz suggested to you  
12:27:20 23 that you should invest with Madoff, what did you  
12:27:25 24 know about Bernie Madoff?

12:27:28 25 A. I don't believe I knew anything about

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12:27:29 1 Mr. Madoff. I believe the first time I heard about  
12:27:31 2 Mr. Madoff was from Mr. Katz. It's possible I could  
12:27:36 3 have heard something or read something about him,  
12:27:38 4 but it was not part of my knowledge at that time,  
12:27:40 5 that I recall.

12:27:41 6 Q. Before you actually invested your  
12:27:45 7 money with Madoff in March of '98, did you do any  
12:27:49 8 investigation or any analysis into Mr. Madoff's  
12:27:54 9 investment firm?

12:27:55 10 A. None that I can recall.

12:27:56 11 Q. Before you invested with Madoff in  
12:28:00 12 March of '98, did you have discussions with any  
12:28:03 13 other Sterling partners about Madoff?

12:28:07 14 A. It is very possible that when  
12:28:10 15 Mr. Katz told me or made the suggestion to invest  
12:28:14 16 with Mr. Madoff, that there were other partners in  
12:28:16 17 the room.

12:28:18 18 Q. And what other partners do you  
12:28:21 19 believe -- well, strike that.

12:28:22 20 Where was this discussion held?

12:28:27 21 A. I don't recall whether it was in  
12:28:30 22 their Manhattan office or in their Long Island  
12:28:33 23 office, or whether the first discussion was by  
12:28:37 24 telephone. I don't recall.

12:28:39 25 Q. And who, other than Mr. Katz, who

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12:28:42 1 else do you believe was there?

12:28:44 2 A. I believe Mr. Wilpon, Mr. Fred Wilpon  
12:28:46 3 may have been there as well.

12:28:48 4 Q. Do you recall if Mr. Fred Wilpon said  
12:28:52 5 anything with respect to Madoff at that time?

12:28:59 6 A. I don't recall anything specifically  
12:29:00 7 that he said at that time.

12:29:04 8 Q. Before investing with Madoff in March  
12:29:10 9 of '98, did you have discussions with anybody about  
12:29:15 10 Madoff before you actually put your money in?

12:29:18 11 A. I don't recall any conversations with  
12:29:20 12 anybody about investing with Madoff other than with  
12:29:22 13 Mr. Katz, specifically. It's possible I could have  
12:29:27 14 had conversations, but I don't recall any of them.

12:29:31 15 Q. And when you invested initially, did  
12:29:33 16 you understand there to be some sort of a minimum  
12:29:36 17 investment -- or investment minimum?

12:29:40 18 A. Yes.

12:29:41 19 Q. And what was the investment minimum  
12:29:43 20 at that time?

12:29:44 21 A. I don't recall whether it was 500,000  
12:29:46 22 or a million dollars, but I think it was in that  
12:29:49 23 range.

12:29:49 24 Q. And how much did you initially  
12:29:52 25 invest?



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12:29:53 1           A.           I don't recall whether it was 500,000  
12:29:55 2 or a million.

12:29:56 3           Q.           Okay. And I think you also, or your  
12:29:59 4 father also opened an account as well around that  
12:30:03 5 time?

12:30:03 6           A.           I'm not sure when my father opened  
12:30:05 7 the account. I believe it was sometime after I  
12:30:08 8 opened the account.

12:30:09 9           Q.           Did your father open his account  
12:30:12 10 through Mr. Katz?

12:30:14 11           A.           Yes. Mr. Katz you're referring to  
12:30:18 12 Sterling Equities?

12:30:19 13           Q.           I'm referring to Saul Katz.

12:30:22 14           A.           Saul Katz provided us the opportunity  
12:30:25 15 to invest in Mr. Madoff through Sterling Equities.

12:30:29 16           Q.           Okay. Can you describe for me the  
12:30:31 17 process of how you invested with Madoff initially  
12:30:40 18 through Sterling Equities. What happened?

12:30:42 19           A.           The first step was Mr. Katz suggested  
12:30:44 20 to me that he could get us access, me personally  
12:30:47 21 access to a closed manager, and he provided me that  
12:30:52 22 opportunity and explained to me how to do it. And I  
12:30:55 23 believe I either sent a check or a wire transfer to  
12:30:59 24 Arthur Friedman, who was the administrator for  
12:31:03 25 Sterling Equities on all of their Madoff accounts.

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12:31:07 1 Q. And were you provided with any  
12:31:09 2 paperwork that you needed to fill out with respect  
12:31:10 3 to opening your account?

12:31:12 4 A. I don't recall. I recall, I do  
12:31:15 5 recall sending either the check or the wire, but I  
12:31:18 6 don't recall filling out any paperwork.

12:31:20 7 Q. Were you provided with any literature  
12:31:22 8 or any information concerning Mr. Madoff before you  
12:31:25 9 invested?

12:31:25 10 A. Not to my recollection.

12:31:29 11 Q. After you sent your check to  
12:31:34 12 Mr. Friedman, what happened next?

12:31:38 13 A. I don't recall whether I sent a check  
12:31:39 14 or whether it was a wire transfer.

12:31:41 15 Q. Okay.

12:31:42 16 A. I believe it went to Mr. Friedman.  
12:31:46 17 It may have gone to another administrator below him.  
12:31:50 18 Karen Maucher was the day-to-day administrator that  
12:31:54 19 I interacted with.

12:31:57 20 Q. And what happened after that?

12:31:59 21 A. I started to receive monthly  
12:32:01 22 statements of my account from Sterling Equities,  
12:32:05 23 from their administrative office.

12:32:07 24 Q. Okay. So the monthly account  
12:32:09 25 statements you received from Sterling Equities, not

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12:32:11 1 from Madoff?

12:32:14 2 A. I don't recall whether they were sent  
12:32:17 3 from Madoff Securities to me or whether they were  
12:32:20 4 sent to Sterling Equities and Sterling Equities  
12:32:23 5 forwarded them to me. But I do know that I received  
12:32:26 6 them and the administration of it was through  
12:32:28 7 Sterling Equities.

12:32:29 8 Q. And did you review these monthly  
12:32:32 9 statements?

12:32:32 10 A. Yes.

12:32:34 11 Q. Did you also receive your father's  
12:32:36 12 monthly statements or did they go to your father?

12:32:39 13 A. I believe that they went to my father  
12:32:40 14 and I may have received a cc, a copy as well.

12:32:45 15 Q. And when you said you reviewed the  
12:32:50 16 monthly statements, was it your custom to review the  
12:32:53 17 statements every time you received them or was it  
12:32:56 18 periodic?

12:32:57 19 A. It was on a regular basis.

12:33:05 20 Q. How did you first meet Saul Katz?

12:33:08 21 A. Saul Katz was the, I believe the  
12:33:12 22 chairman of the finance committee of Glen Cove and a  
12:33:17 23 member of the board of North Shore University  
12:33:20 24 Hospital. The CEO, Jack Gallagher, asked me to meet  
12:33:25 25 with him, Mr. Katz, and to suggest to Mr. Katz that

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12:33:28 1 he consider serving as chairman of the board of  
12:33:32 2 North Shore University Hospital.

12:33:35 3 Q. And when was that?

12:33:37 4 A. I believe that was 1994.

12:33:39 5 Q. And did you meet with Mr. Katz?

12:33:42 6 A. Yes.

12:33:42 7 Q. Did you ask him to serve as chair?

12:33:45 8 A. Yes.

12:33:45 9 Q. And he said yes?

12:33:47 10 A. Yes.

12:33:52 11 Q. And I think earlier we discussed that  
12:33:55 12 SAI had provided consulting services to Long Island  
12:34:00 13 Jewish Health System, right?

12:34:01 14 A. That's right. And it may have been  
12:34:03 15 that we started providing services in '94 and then I  
12:34:06 16 actually had the first meeting with Mr. Katz in '95.  
12:34:09 17 I don't recall the exact time frame. It was soon  
12:34:11 18 before he became chairman.

12:34:13 19 Q. Okay. And the services that SAI  
12:34:17 20 provided to Long Island Jewish, that was in  
12:34:20 21 connection with the merger with North Shore; is that  
12:34:25 22 right?

12:34:25 23 A. We were consultant to North Shore  
12:34:29 24 University Hospital at Manhasset, and served as the  
12:34:30 25 advisor to North Shore University Hospital of

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12:34:33 1 Manhasset on all of their mergers on Long Island.

12:34:33 2 Q. Okay.

12:34:36 3 A. Of which LIJ became one.

12:34:40 4 Q. So the initial relationship that you  
12:34:41 5 had was with North Shore?

12:34:43 6 A. North Shore University Hospital of  
12:34:45 7 Manhasset.

12:34:46 8 Q. After the merger -- well, when was  
12:34:49 9 the merger between North Shore and Long Island  
12:34:52 10 Jewish?

12:34:53 11 A. I don't recall the exact date. It  
12:34:55 12 was sometime in the '97-'98 time frame.

12:34:59 13 Q. After the merger, did you continue to  
12:35:01 14 provide services to --

12:35:02 15 A. Yes.

12:35:03 16 Q. -- Long Island -- what was the name  
12:35:05 17 of the entity after they merged?

12:35:08 18 A. North Shore Long Island Jewish.  
12:35:11 19 North Shore LIJ.

12:35:12 20 Q. North Shore LIJ, thank you.

12:35:16 21 Did you continue to provide -- I'll  
12:35:16 22 wait till you're done.

12:35:17 23 Did you continue to provide  
12:35:17 24 consulting services to North Shore LIJ after the  
12:35:21 25 merger?

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12:35:22 1

A. Yes.

12:35:25 2

Q. And for how long did you provide

12:35:27 3

consulting services after the merger?

12:35:30 4

A. I believe it was for contemporaneous

12:35:36 5

time frame that I continued to be an employee for

12:35:40 6

Perot Systems, which was about a year or two. I

12:35:43 7

don't recall the exact time frame.

12:35:45 8

Q. So we're in like late '90s?

12:35:48 9

A. Late '90s.

12:35:56 10

Q. When did the idea of you partnering

12:36:03 11

with the Katz or Wilpon families first arise?

12:36:08 12

A. I believe it first arose over lunch,

12:36:13 13

a lunch that I had with Saul Katz's son, David Katz,

12:36:18 14

sometime in the either late '90s or early 2000.

12:36:25 15

Q. And who raised the issue, was it you

12:36:27 16

or was it Mr. Katz?

12:36:29 17

A. You're referring to David Katz?

12:36:30 18

Q. Yes.

12:36:32 19

A. I don't recall who did. I believe it

12:36:35 20

was David who suggested that it would make sense for

12:36:38 21

us to consider creating a company with our two

12:36:43 22

fathers.

12:36:45 23

Q. And what else did Mr. David Katz say

12:36:50 24

at that lunch concerning forming a partnership

12:36:53 25

between the two families?

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12:36:55 1           A.           I recall two things that he said.  
12:36:58 2           The first was the nature of our two families, how he  
12:37:05 3           respected and I believe he used the word loved my  
12:37:09 4           father, and how I respected and loved his father,  
12:37:12 5           and how the two of us respected and loved each  
12:37:18 6           other. And that it would be wonderful to be able to  
12:37:21 7           work together, two fathers, two sons. That's the  
12:37:24 8           first thing I recall him saying.

12:37:26 9                         The second thing I recall him saying  
12:37:28 10           was his concern that sometime in the future if his  
12:37:37 11           father were no longer alive and his father were, in  
12:37:40 12           his words, in heaven looking down on him and saw  
12:37:43 13           that they had close to 100 percent of their  
12:37:45 14           investable assets in one single manager, that Saul,  
12:37:50 15           his father in heaven, would reprimand David for that  
12:37:56 16           fact.

12:37:58 17           Q.           And when you're referring to the one  
12:38:00 18           single manager with close to 100 percent of the  
12:38:02 19           assets, you're referring to Mr. Madoff?

12:38:05 20           A.           And I believe it -- I don't know what  
12:38:06 21           the phrase he used was, investable or liquid assets  
12:38:09 22           or investment assets, but a substantial portion of  
12:38:12 23           their assets. Yes.

12:38:16 24           Q.           Yes, thank you.  
12:38:20 25                         What did you say in response to those

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12:38:23 1 two points?

12:38:25 2 A. On the first point, I agreed. On the  
12:38:30 3 second point, I also agreed.

12:38:34 4 Q. And on those two points, were there  
12:38:39 5 any other reasons that Mr. David Katz raised for  
12:38:45 6 joining an investment partnership between the two  
12:38:47 7 families?

12:38:48 8 A. I don't recall anything other than  
12:38:49 9 those two general points.

12:38:57 10 Q. Did Mr. David Katz raise with you,  
12:39:00 11 prior to that lunch, his concerns with his family  
12:39:07 12 having substantially all or all of their liquid  
12:39:09 13 asset investments in Madoff?

12:39:12 14 A. I don't recall a conversation prior  
12:39:13 15 to that one. That's the first one I recall. It's  
12:39:15 16 possible we could have had an earlier conversation,  
12:39:19 17 but that's the one I recall.

12:39:23 18 Q. Before the lunch with David Katz,  
12:39:25 19 this lunch that we're discussing right now, did you  
12:39:30 20 come to the conclusion that you believe that the  
12:39:32 21 Katz and Wilpon families had -- let me rephrase.

12:39:36 22 Before that lunch with David Katz,  
12:39:39 23 did you know that the Katz and Wilpon families had  
12:39:42 24 substantially all or all of their liquid assets in  
12:39:45 25 Madoff?



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12:39:46 1           A.           I don't believe I knew the amount of  
12:39:48 2           assets they had and what percentages were with  
12:39:54 3           Bernard Madoff or what percentage were managed  
12:39:56 4           elsewhere with other managers at that time.

12:39:58 5           Q.           So the first time you became aware of  
12:40:02 6           the amount of the Katz and Wilpon investments in  
12:40:04 7           Madoff was at the lunch with David Katz?

12:40:07 8           MR. GOUDISS: I object. Go ahead.

12:40:09 9           A.           I'm not saying that's the first time.  
12:40:11 10          That's the first time that I recall the  
12:40:14 11          conversation. It's possible we had a conversation  
12:40:16 12          prior to that.

12:40:18 13          Q.           So what happened after this lunch  
12:40:25 14          with David Katz where he first raised the issue of  
12:40:29 15          the two families partnering together?

12:40:31 16          A.           I'm not sure of the exact sequence of  
12:40:35 17          events, but I do recall that either he had a  
12:40:37 18          conversation with his father or he and I had a  
12:40:39 19          conversation with his father, Mr. Saul Katz, about  
12:40:44 20          what it would entail.

12:40:47 21          Q.           Can you tell me what were the  
12:40:52 22          substance of those discussions?

12:40:54 23          A.           Generally speaking.

12:40:55 24          Q.           Yes.

12:40:57 25          A.           My understanding of how to conduct,

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12:41:00 1 how to create a diversified portfolio would be to do  
12:41:04 2 something different than what I understood they were  
12:41:06 3 doing and something different than what I was doing.  
12:41:09 4 Which is that I had capital that I managed and I had  
12:41:14 5 a substantial portion of my liquid assets in one  
12:41:17 6 manager. And that what we would seek to do is to  
12:41:20 7 diversify into ten or more managers.

12:41:23 8 Q. Let me back up before we get into  
12:41:27 9 that. Before the lunch you had with David Katz  
12:41:33 10 where you had the initial discussion about  
12:41:34 11 partnering with the Katz and Wilpon family, did you  
12:41:39 12 or members of your family jointly invest with the  
12:41:43 13 Katz and Wilpon families in other investments?

12:41:48 14 A. I don't recall whether we did any  
12:41:50 15 other specific investments. It's possible that we  
12:41:54 16 did. We had investments at prior periods in other  
12:41:59 17 investments that they made.

12:42:00 18 Q. And what investments were those?

12:42:02 19 A. When I say we, it's either me or my  
12:42:06 20 family. I think it was me. I believe I made an  
12:42:08 21 investment as an individual in one of their real  
12:42:13 22 estate funds.

12:42:13 23 Q. One of the SAP funds?

12:42:16 24 A. I believe that's correct. I also  
12:42:18 25 believe I made some small investments in some

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12:42:21 1 venture capital investments that they had.

12:42:25 2 Q. Anything else do you recall?

12:42:30 3 A. As an individual or as a firm?

12:42:33 4 Q. First as an individual.

12:42:35 5 A. As an individual, I don't recall any

12:42:37 6 other investments that I made with them.

12:42:41 7 Q. And as a firm are you referring to

12:42:43 8 SAI?

12:42:44 9 A. No.

12:42:44 10 Q. Who are you referring to?

12:42:46 11 A. SP Capital and then Sterling Stamos.

12:42:51 12 Q. Okay. And by SP Capital, the

12:42:56 13 predecessor to Sterling Stamos, correct?

12:42:58 14 A. Correct. Same firm, different name.

12:43:00 15 Q. So that's June '02 and on?

12:43:02 16 A. Yes.

12:43:03 17 Q. Okay. So, prior to June 2002, can

12:43:08 18 you recall of any other joint investments you made

12:43:13 19 with the Katz and Wilpon families?

12:43:16 20 A. I don't recall any. It's possible

12:43:18 21 that there were, but I don't recall any.

12:43:25 22 Q. How did you come to know -- how did

12:43:27 23 you -- strike that.

12:43:27 24 When did you first meet David Katz?

12:43:32 25 A. I don't recall when I first met him.

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12:43:34 1 Roughly around the same time frame that I met the  
12:43:37 2 rest of Mr. Katz's family.

12:43:40 3 Q. Was this through, was it through your  
12:43:42 4 work with Mr. Katz for North Shore LIJ?

12:43:47 5 A. Yes.

12:43:48 6 Q. How often did you meet with Saul Katz  
12:43:55 7 with respect to the work you did for North Shore  
12:43:59 8 LIJ?

12:44:00 9 A. During what time period?

12:44:01 10 Q. Take it from the beginning and then  
12:44:03 11 after the merger.

12:44:04 12 MR. GOUDISS: From the time he  
12:44:05 13 assumes the chairmanship?

12:44:07 14 MR. BOHORQUEZ: Yes. In '94.

12:44:10 15 A. From the time he assumed the  
12:44:11 16 chairmanship until I was no longer a consultant I  
12:44:15 17 would speak with or meet with Mr. Katz on a regular  
12:44:17 18 basis, as often as, for some periods of time daily,  
12:44:23 19 and other times weekly.

12:44:26 20 Q. And what was Mr. David Katz's role  
12:44:29 21 with respect to North Shore LIJ, if any?

12:44:33 22 A. Initially or later?

12:44:35 23 Q. Initially.

12:44:36 24 A. Initially, I think he might have been  
12:44:42 25 on the extended advisory board of one of the

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12:44:45 1 hospitals, Glen Cove. I think eventually he became  
12:44:48 2 an affiliated advisor or board member of one of the  
12:44:52 3 entities.

12:44:53 4 Q. And through the work that you did  
12:44:55 5 with the hospital, that's how you got to know David  
12:44:58 6 Katz as well?

12:44:58 7 A. No.

12:44:58 8 Q. Okay. So how did you get to know  
12:45:01 9 David Katz?

12:45:01 10 A. On a personal basis.

12:45:04 11 Q. So, friends?

12:45:05 12 A. Yes.

12:45:06 13 Q. When did you first meet Fred Wilpon?

12:45:13 14 A. I don't recall the specific time but  
12:45:14 15 sometime after, I believe, Saul Katz became chairman  
12:45:19 16 of the board of North Shore University Hospital.

12:45:22 17 Q. Did Saul Katz introduce you to  
12:45:25 18 Mr. Wilpon?

12:45:26 19 A. I believe so, yes.

12:45:34 20 Q. When did -- strike that.

12:45:38 21 Do you know the other Sterling  
12:45:39 22 partners?

12:45:39 23 A. Some of them.

12:45:40 24 Q. Who do you know?

12:45:41 25 A. I know Arthur Friedman. I know

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12:45:44 1 Marvin Tepper. I know Tom Osterman. I can't  
12:45:52 2 recall -- I know Jeff Wilpon and I know David Katz.  
12:45:56 3 I don't recall the other, there's maybe one or two  
12:45:59 4 other partners.

12:46:00 5 Q. Leonard Schreier?

12:46:03 6 A. I did know Leonard Schreier prior to  
12:46:06 7 his death.

12:46:06 8 Q. When did you first meet Marvin  
12:46:10 9 Tepper?

12:46:10 10 A. I believe around the same time that I  
12:46:13 11 met Mr. Wilpon.

12:46:14 12 Q. That was sometime after Saul Katz  
12:46:16 13 became chair of --

12:46:18 14 A. I believe so.

12:46:20 15 Q. And when did you first meet  
12:46:23 16 Mr. Friedman?

12:46:25 17 A. I believe all contemporaneously in  
12:46:27 18 the same time frame.

12:46:28 19 Q. And by all you're referring to all  
12:46:30 20 the Sterling partners?

12:46:31 21 A. Correct.

12:46:35 22 Q. Did you meet Bernie Madoff before you  
12:46:41 23 made any investments with his firm?

12:46:44 24 A. No.

12:46:46 25 Q. Have you ever met Bernard Madoff?

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12:46:49 1 A. Yes.

12:46:49 2 Q. When did you first meet him?

12:46:52 3 A. I believe the first time I met

12:46:54 4 Mr. Madoff was at the wedding of one of Saul's

12:46:59 5 daughters.

12:47:00 6 Q. Was that Natalie?

12:47:02 7 A. I don't know whether it was Natalie

12:47:03 8 or the other daughter.

12:47:04 9 Q. Heather, I believe?

12:47:06 10 A. I don't know whether it was Natalie's

12:47:09 11 wedding or Heather's wedding. Quite frankly, it

12:47:12 12 could have been David's wedding, but it was one of

12:47:15 13 the weddings. I think it was one of the daughters.

12:47:18 14 Q. When was that?

12:47:20 15 A. Sometime after I made an investment,

12:47:22 16 and I don't recall when.

12:47:23 17 Q. Was it before or after Sterling

12:47:27 18 Stamos was formed in June of '02?

12:47:29 19 A. I don't recall. I believe it was

12:47:35 20 after.

12:47:37 21 Q. And did you -- what did you talk

12:47:39 22 about when you met him?

12:47:41 23 A. I do recall the conversation.

12:47:43 24 Q. Describe to me what you discussed at

12:47:46 25 the conversation.

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12:47:47 1 A. What I recall is, and the only thing  
12:47:49 2 I know about time frame is it was after my brother  
12:47:53 3 had become an investor. What I said to Mr. Madoff  
12:47:56 4 was my brother Basil is an infectious disease  
12:48:02 5 specialist and thanks to his investments with you,  
12:48:05 6 Mr. Madoff, he is able to take care of homeless  
12:48:08 7 patients. I just want to tell you thank you.

12:48:12 8 Q. And what did Mr. Madoff say in  
12:48:14 9 response?

12:48:14 10 A. He said, thank you very much, I  
12:48:17 11 appreciate that. He said, I hear that story very  
12:48:20 12 often.

12:48:20 13 Q. So did you discuss anything else with  
12:48:22 14 Mr. Madoff at that time?

12:48:23 15 A. At that time I don't recall anything  
12:48:25 16 else.

12:48:26 17 Q. After you met him at the wedding of  
12:48:29 18 one of the Wil --

12:48:31 19 A. One of the Katz's.

12:48:33 20 Q. -- one of the Katz's children, did  
12:48:38 21 you meet him in person again any other time?

12:48:40 22 A. Yes.

12:48:40 23 Q. When was the next time that you met  
12:48:42 24 him?

12:48:43 25 A. I don't recall when the next time was



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12:48:45 1 but I recall another time that I met him.

12:48:47 2 Q. Tell me about that other time that  
12:48:49 3 you recall meeting him.

12:48:50 4 A. I remember meeting him at a dinner  
12:48:53 5 held at Ezra Merkin's house. I believe it was at  
12:49:00 6 Shabbat dinner on a Friday evening.

12:49:03 7 Q. How long after the wedding when you  
12:49:09 8 first met him was this dinner?

12:49:11 9 A. I don't recall.

12:49:12 10 Q. Who was at the dinner?

12:49:14 11 A. People that I remember were Ezra  
12:49:17 12 Merkin, his wife, Mr. Madoff, I believe Mr. Merkin's  
12:49:21 13 children and I believe that Mr. Madoff's wife was  
12:49:24 14 there as well.

12:49:27 15 Q. And did Ezra Merkin invite you to the  
12:49:33 16 dinner?

12:49:34 17 A. Yes.

12:49:34 18 Q. Were any members of the Katz or  
12:49:36 19 Wilpon family at the dinner?

12:49:40 20 A. Not to my recollection.

12:49:43 21 Q. At the dinner that you had with  
12:49:45 22 Mr. Madoff and the Merkin family, did you discuss  
12:49:49 23 any topics with respect to Madoff's investment  
12:49:53 24 advisory business?

12:49:54 25 A. Yes.

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12:49:55 1 Q. What did you discuss at the dinner?

12:49:59 2 A. With whom?

12:49:59 3 Q. Well, let's start with Mr. Madoff.

12:50:03 4 A. That's the only conversation I recall

12:50:07 5 about -- that was with Mr. Madoff.

12:50:09 6 Q. Okay. And what did you guys talk

12:50:11 7 about?

12:50:12 8 A. I remember expressing to him my

12:50:24 9 understanding of his investment strategy.

12:50:29 10 Q. The so-called split strike strategy?

12:50:33 11 A. Yes.

12:50:33 12 Q. Before you had the discussion with

12:50:35 13 Mr. Madoff, what was your understanding of the split

12:50:39 14 strike strategy?

12:50:41 15 A. The same as it was after I had...

12:50:46 16 Q. Okay. What was your understanding at

12:50:48 17 that time?

12:50:49 18 A. Are you asking me what I said to him

12:50:51 19 or asking me what my understanding was?

12:50:53 20 Q. Is there a difference?

12:50:56 21 A. I don't think so.

12:50:56 22 Q. Okay.

12:50:59 23 A. Just want to be specific. Here's

12:51:01 24 what I remember saying to him.

12:51:02 25 Q. Okay.

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12:51:05 1 A. My understanding is you buy a set of  
12:51:08 2 stocks and you buy a put and sell a call, and I  
12:51:17 3 understand that. And I think that's remarkable, the  
12:51:20 4 way you've been so successful with doing that. What  
12:51:23 5 I don't understand is how do you know when to put  
12:51:26 6 that trade on? That's what I said to him.

12:51:31 7 Q. You're referring to the market timing  
12:51:33 8 aspect of the strategy?

12:51:35 9 A. Correct.

12:51:37 10 Q. Why did you ask him that question?

12:51:42 11 A. Because I was curious. I'm not sure  
12:51:45 12 if I had been -- if I was still an investor at that  
12:51:48 13 time or if I had stopped being an investor. But I  
12:51:51 14 had been an investor of his, on an individual basis,  
12:51:54 15 for several years, and I was curious how he did it.

12:51:57 16 Q. So you understood the options,  
12:52:03 17 arbitrage aspect of it?

12:52:04 18 A. In concept.

12:52:05 19 Q. In concept. What you didn't  
12:52:07 20 understand was the market timing aspect of the  
12:52:09 21 strategy?

12:52:12 22 A. Correct.

12:52:12 23 Q. And what did Mr. Madoff say in  
12:52:14 24 response?

12:52:17 25 A. In general I recall him saying that

12:52:21 1 the answer to that is my own algorithm, which is  
12:52:27 2 confidential.

12:52:27 3 Q. So he had, another word for that  
12:52:30 4 would be like a black box, if you will?

12:52:33 5 A. Yes.

12:52:35 6 Q. Did you ask him again to tell you  
12:52:38 7 what the algorithm was?

12:52:43 8 A. I don't recall -- I don't believe so.

12:52:45 9 Q. Just so I understand, he told you  
12:52:46 10 that the market timing was the result of an  
12:52:49 11 algorithm that he had that was confidential, that he  
12:52:52 12 would not disclose it to you?

12:52:54 13 A. That's correct.

12:52:54 14 Q. And what did you say in response?

12:52:58 15 A. I don't recall any response. It was  
12:53:00 16 a polite dinner conversation.

12:53:03 17 Q. When you were having this discussion  
12:53:06 18 with Mr. Madoff about his split strike strategy, was  
12:53:10 19 Mr. Merkin in the room?

12:53:14 20 A. I believe he was in the same room.  
12:53:15 21 He might have been in the other room. To be clear,  
12:53:18 22 it was after dinner, so we were probably sitting in  
12:53:22 23 the living room somewhere.

12:53:25 24 Q. Was Mr. Merkin a part of this  
12:53:28 25 discussion in any way?

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12:53:29 1           A.           Not to my recollection. He may have  
12:53:35 2           overheard it, but I don't recall if he was part of  
12:53:37 3           this discussion.

12:53:38 4           Q.           And what was your reaction to  
12:53:42 5           Mr. Madoff's response that his market timing  
12:53:45 6           component of a split strike strategy was a black  
12:53:49 7           box?

12:53:50 8           A.           At that time, which I believe was  
12:53:53 9           early on in the development of our firm, that was a  
12:53:57 10           common answer to a number of managers that we either  
12:54:01 11           invested with or considered investing with. For  
12:54:04 12           example, D.E. Shaw had a quantitative black box that  
12:54:08 13           people invested in.

12:54:11 14           Q.           So, when he told you that he had a  
12:54:13 15           black box component to his strategy, your reaction  
12:54:17 16           was that that was similar to other responses you'd  
12:54:22 17           gotten from other market managers at that time,  
12:54:25 18           investment managers at that time?

12:54:26 19           A.           I don't believe he used the phrase  
12:54:28 20           "black box." I believe he used the phrase  
12:54:31 21           "algorithm."

12:54:32 22                           The answer to that is that was  
12:54:34 23           similar to, yes. Similar.

12:54:42 24           Q.           Thank you. And you can't recall if  
12:54:44 25           you had this discussion with Mr. Madoff before or

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12:54:47 1 after you withdrew your money from the Madoff  
12:54:52 2 investment firm?

12:54:55 3 A. I don't recall whether it was before  
12:54:56 4 or after.

12:54:58 5 Q. Why did you withdraw your money from  
12:55:03 6 Madoff?

12:55:04 7 A. For two reasons. One is to cover my  
12:55:07 8 living expenses. Because for the first -- well,  
12:55:10 9 lifestyle. For the first two years of the firm I  
12:55:13 10 received no salary. So I had to withdraw capital  
12:55:16 11 from my most liquid account to cover living  
12:55:20 12 expenses. My wife and I bought a house, a  
12:55:23 13 condominium, and had to cover our living costs.

12:55:26 14 And the second reason was I withdrew  
12:55:29 15 the final amount of capital I had with him I believe  
12:55:32 16 the end of 2004 because as part of our process to  
12:55:36 17 become a registered investment advisor I made the  
12:55:39 18 decision, made the recommendation and then the  
12:55:41 19 decision that all of the operating partners would  
12:55:44 20 have 100 percent of our investable assets in our own  
12:55:47 21 funds. We would not have any investments outside of  
12:55:51 22 the firm. That would be late 2004. But I believe I  
12:55:55 23 withdrew the majority, significant majority of my  
12:55:59 24 assets in '03 to cover living expenses and the  
12:56:04 25 purchase of a house, condominium.

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12:56:08 1 Q. After you had this discussion with  
12:56:10 2 Mr. Madoff at dinner at the Merkins, did you share  
12:56:16 3 that conversation with anyone?

12:56:20 4 A. I'm sure I shared it with some  
12:56:23 5 members of my family, and possibly with Mr. Katz.

12:56:26 6 Q. What members of your family did you  
12:56:28 7 share it with?

12:56:29 8 A. I believe my wife.

12:56:30 9 Q. Did you share it with your father?

12:56:33 10 A. I possibly shared it with my father.

12:56:36 11 Q. What about your brothers, Basil and  
12:56:39 12 Chris?

12:56:39 13 A. Possibly my brothers Basil and Chris  
12:56:42 14 as well because we're very close and spoke often.

12:56:45 15 Q. Did you raise this discussion you had  
12:56:49 16 with Mr. Madoff with anyone at Sterling Stamos?

12:56:53 17 A. I don't recall the specific  
12:56:55 18 conversation with anyone at Sterling Stamos, but it  
12:56:58 19 would have been in my normal course of events to  
12:57:02 20 discuss this with -- a conversation with a fund,  
12:57:04 21 with any manager with my investment team, so I  
12:57:07 22 assume I probably did.

12:57:09 23 Q. And who from your investment team did  
12:57:10 24 you probably have that discussion with?

12:57:12 25 MR. GOUDISS: I object. Go ahead.

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12:57:15 1 A. I don't recall the specific  
12:57:18 2 conversation, so it could have been any member of  
12:57:20 3 the team.

12:57:20 4 Q. At that time who were the members of  
12:57:22 5 your team?

12:57:23 6 A. The two members that were most active  
12:57:25 7 I believe at that time were Kevin Okimoto and Ashok  
12:57:29 8 Chachra.

12:57:30 9 Q. Those are the two founding partners  
12:57:32 10 of Sterling Stamos?

12:57:33 11 A. Yes.

12:57:33 12 Q. From the Stamos side.

12:57:37 13 A. Yes.

12:57:42 14 Q. With respect to Mr. Katz, you said  
12:57:46 15 you raised the discussion you had with Mr. Madoff  
12:57:48 16 with Mr. Katz, are you referring to Saul Katz or  
12:57:50 17 David Katz?

12:57:52 18 A. Saul Katz, I believe.

12:57:53 19 Q. And what did you tell Saul Katz about  
12:57:55 20 your discussion with Mr. Madoff?

12:57:57 21 A. First of all, I don't recall a  
12:57:58 22 specific conversation with Mr. Katz. I think what I  
12:58:02 23 believe I said is that I believe I spoke with him  
12:58:06 24 about this, because it was the kind of thing I would  
12:58:10 25 share with him.



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12:58:11 1 Q. But you don't recall -- do you recall  
12:58:13 2 a specific discussion you had with him about that  
12:58:15 3 particular dinner conversation you had with  
12:58:17 4 Mr. Madoff?

12:58:18 5 A. Not a specific one.

12:58:21 6 Q. After the dinner conversation you had  
12:58:25 7 with Mr. Madoff at the Merkins, what was the next  
12:58:31 8 time you met with Mr. Madoff in person?

12:58:35 9 A. I don't recall ever meeting with  
12:58:38 10 Mr. Madoff, in the sense of a meeting. I may have  
12:58:41 11 seen him at other events.

12:58:43 12 Q. All right, let me rephrase the  
12:58:46 13 question.

12:58:47 14 After the dinner you had with  
12:58:50 15 Mr. Madoff at the Merkins, when was the next time  
12:58:53 16 that you saw Mr. Madoff in person?

12:58:55 17 A. The only other one or two times that  
12:58:57 18 I recall ever seeing Mr. Madoff was once when I  
12:59:01 19 believe Mr. Merkin and/or Mr. Madoff were receiving  
12:59:05 20 honorary degrees at Yeshiva University, and I was in  
12:59:09 21 attendance. And I believe that I may have met him  
12:59:11 22 at the reception, shook his hand.

12:59:16 23 Q. Did you have any discussions with  
12:59:18 24 him?

12:59:18 25 A. Not that I can recall.

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12:59:19 1 I believe it's possible that I also  
12:59:20 2 met him at an event that Mr. Wilpon hosted in New  
12:59:31 3 York City for a musical. It would have been, again,  
12:59:35 4 an in-the-hallway kind of handshake. That's all I  
12:59:38 5 can recall.

12:59:38 6 Q. And no substantive discussion of any  
12:59:41 7 kind?

12:59:42 8 A. No.

12:59:42 9 Q. Now, we've walked --

12:59:50 10 A. I apologize. I do remember one other  
12:59:51 11 time.

12:59:52 12 I believe that Mr. Wilpon or Mr. Katz  
12:59:54 13 called me to ask if Mr. Madoff or Mr. Madoff's wife  
01:00:03 14 could get a medical referral from my wife, who is a  
01:00:07 15 cancer specialist. And I don't know whether that  
01:00:12 16 resulted in a telephone call from one of the Madoffs  
01:00:16 17 to my family and whether I picked it up or not.  
01:00:19 18 That's the only other time I can remember.

01:00:23 19 Q. In one of the literally thousands of  
01:00:29 20 documents that you have produced to us, I saw a,  
01:00:32 21 there's an August '04 meeting that was scheduled and  
01:00:37 22 then cancelled where I believe Mr. Madoff was in  
01:00:39 23 attendance -- was going to attend. Does that jar  
01:00:43 24 your recollection in any way?

01:00:44 25 A. Yes, it does.

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01:00:46 1 Q. Okay. Why were you scheduled to meet  
01:00:49 2 with Mr. Madoff in August of '04?

01:00:52 3 A. To the best of my recollection, that  
01:00:54 4 coincides with the time frame that we were trying to  
01:00:57 5 figure out what, if any, concerns he would have and  
01:01:02 6 Mr. Katz would have with us becoming a registered  
01:01:05 7 investment advisor. I'm not certain of that fact.  
01:01:08 8 That's what it seems, that's what my recollection  
01:01:10 9 suggests to me.

01:01:12 10 Q. That would be with respect to the  
01:01:13 11 matters we discussed this morning?

01:01:15 12 A. Correct.

01:01:16 13 Q. Concerning the registering as an  
01:01:20 14 investment advisor. Okay.

01:01:24 15 Who initially scheduled that meeting?

01:01:27 16 A. I don't know.

01:01:29 17 Q. But the meeting didn't happen?

01:01:31 18 A. Not to my knowledge.

01:01:33 19 Q. Did you try to reschedule the meeting  
01:01:36 20 with Mr. Madoff?

01:01:37 21 A. I don't believe so.

01:01:40 22 Q. Did you have, you personally, did you  
01:01:44 23 have any phone conversations or conference calls  
01:01:47 24 with Mr. Madoff concerning Sterling Stamos' --  
01:01:52 25 whether Sterling Stamos should register as an

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01:01:55 1 investment advisor?

01:01:56 2 A. No. Not to my recollection.

01:01:58 3 Q. So what happened after this August  
01:02:02 4 '04 meeting was cancelled?

01:02:04 5 A. Can you be more specific?

01:02:06 6 Q. You say you believe that the August  
01:02:07 7 '04 meeting, the one that was essentially cancelled,  
01:02:12 8 may have had something to do with the concerns that  
01:02:15 9 Mr. Katz had with Sterling Stamos registering as an  
01:02:21 10 investment advisor because of his investments with  
01:02:24 11 Madoff.

01:02:25 12 A. Yes.

01:02:25 13 Q. So, what I'm asking then is, if this  
01:02:29 14 matter was of substantial -- was of concern to you  
01:02:32 15 and Mr. Katz, and you had planned a meeting with  
01:02:36 16 Mr. Madoff about it and that meeting was cancelled,  
01:02:39 17 did you do -- did you or anyone at Sterling Stamos  
01:02:43 18 do anything after that?

01:02:44 19 A. Yes. I believe we resolved the  
01:02:45 20 issues, such that Mr. Katz was then comfortable and  
01:02:49 21 no longer needed the meeting.

01:02:52 22 Q. And when you referenced your  
01:02:56 23 resolution of the issues, you're referring to the  
01:02:58 24 matters that you testified to this morning?

01:03:01 25 A. Correct.

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01:03:05 1 Q. Now, we walked through the various  
01:03:09 2 in-person meetings that you had with Mr. Madoff.

01:03:12 3 A. Yes.

01:03:12 4 Q. Did you have any phone discussions  
01:03:16 5 with Mr. Madoff over the period that you knew him?

01:03:22 6 A. Not to my recollection.

01:03:41 7 MR. BOHORQUEZ: Let's take a minute.  
01:03:48 8 Why don't we go off the record.

01:03:51 9 THE VIDEOGRAPHER: Going off the  
01:03:52 10 record, the time is 1:04. This ends tape number 2.

01:04:15 11 (Luncheon recess taken.)

01:04:15 12 \* \* \*

01:56:58 13  
01:56:58 14 THE VIDEOGRAPHER: We are back on the  
01:57:00 15 record. The time is 1:57. This is tape number 3.

01:57:05 16 BY MR. BOHORQUEZ:

01:57:06 17 Q. Good afternoon, Mr. Stamos.

01:57:08 18 A. Good afternoon.

01:57:10 19 Q. Couple of quick follow-up questions  
01:57:13 20 about some of the matters we discussed this morning.

01:57:17 21 We discussed an August 2004 meeting  
01:57:21 22 that was scheduled with Mr. Madoff that was then  
01:57:24 23 cancelled. Do you recall that?

01:57:26 24 A. Do I recall the discussion? Yes.

01:57:28 25 Q. Okay. Why was that meeting

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01:57:30 1 cancelled?

01:57:31 2 A. I don't know.

01:57:32 3 Q. You don't know or you don't recall?

01:57:36 4 A. I don't recall that I ever knew.

01:57:44 5 Q. Both, I guess.

01:57:46 6 A. Yeah.

01:57:47 7 Q. And with respect to the issue as to  
01:57:55 8 whether Sterling Stamos should register as an  
01:57:59 9 investment advisor, did you think it was odd that  
01:58:02 10 Madoff had concerns with Saul Katz having to  
01:58:07 11 disclose his investments or business relationship  
01:58:13 12 with Madoff if Sterling Stamos were to register as  
01:58:19 13 the resident advisor?

01:58:19 14 MR. GOUDISS: I object, but go ahead.

01:58:21 15 A. I don't understand how to answer the  
01:58:23 16 question odd, the word "odd." What do you mean by  
01:58:26 17 odd?

01:58:27 18 Q. What do you understand the word "odd"  
01:58:29 19 to mean?

01:58:30 20 A. Do you mean out of the ordinary?

01:58:31 21 Q. That's one way to define it.

01:58:34 22 A. I did not consider it out of the  
01:58:37 23 ordinary.

01:58:37 24 Q. That Mr. Madoff had concerns with  
01:58:40 25 Saul Katz having to disclose his investments with

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01:58:44 1 Madoff?

01:58:45 2 MR. GOUDISS: I object. Go ahead.

01:58:46 3 A. To be clear, my understanding of what

01:58:49 4 Mr. Katz said to me was that he was concerned about

01:58:53 5 his having to disclose his investments and other

01:58:58 6 business relationships with Mr. Madoff.

01:59:01 7 Q. And did you find that odd in any way

01:59:05 8 that Mr. Katz had any concerns with having to

01:59:08 9 disclose his investments or business relationships

01:59:11 10 with Mr. Madoff?

01:59:12 11 A. What I don't understand is "odd in

01:59:14 12 any way." If you could describe what you mean by

01:59:16 13 that, I can answer the question.

01:59:21 14 Q. Did Mr. Saul Katz -- why did Mr. Saul

01:59:33 15 Katz -- did Mr. Saul Katz tell you why he wanted to

01:59:37 16 keep his investments with Madoff confidential?

01:59:42 17 MR. GOUDISS: I object. Go ahead.

01:59:44 18 A. I can tell you what I recall he said

01:59:46 19 to me. I don't know his reasons why.

01:59:51 20 Q. And what did he say to you?

01:59:53 21 MR. GOUDISS: I object. Go ahead.

01:59:54 22 Tell him again.

01:59:57 23 A. I believe that what Mr. -- or what I

01:59:59 24 recall Mr. Katz expressing is concern about

02:00:03 25 confidentiality and privacy.

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02:00:10 1 Q. Did he explain why he didn't -- did  
02:00:13 2 he explain to you why he did not want to disclose  
02:00:16 3 his investments with Madoff?

02:00:18 4 A. I don't recall his explanation,  
02:00:19 5 anything beyond privacy and confidentiality.

02:00:24 6 Q. And what did he tell you about his  
02:00:26 7 concerns with confidentiality and privacy with  
02:00:28 8 respect to his Madoff investments?

02:00:31 9 MR. GOUDISS: I object. Go ahead.

02:00:34 10 A. I believe that's the only thing I  
02:00:36 11 recall is that Mr. Madoff is -- wants our  
02:00:41 12 relationship private and confidential.

02:00:44 13 Q. And did he tell you why Mr. Madoff  
02:00:46 14 wanted his relationship with Mr. Katz confidential?

02:00:50 15 A. I don't recall him ever explaining to  
02:00:52 16 me why, then in fact that's one of the things that  
02:00:58 17 we tried to determine. Why that was an issue.

02:01:03 18 Q. And why did you try to determine as  
02:01:05 19 to whether that was an issue?

02:01:07 20 A. So that we could register as an  
02:01:09 21 investment advisor.

02:01:19 22 Q. Did anyone at Sterling Stamos ever  
02:01:22 23 express to you or raise -- let me rephrase it.

02:01:28 24 Did anyone at Sterling Stamos ever  
02:01:31 25 raise any questions with the fact that Madoff wanted



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02:01:35 1 to keep his business relationship with Saul Katz  
02:01:39 2 secret?

02:01:39 3 MR. GOUDISS: I object. Go ahead.

02:01:41 4 A. I don't recall any specific  
02:01:45 5 conversations about that with anyone in the firm, if  
02:01:48 6 that's what you're referring to.

02:01:50 7 Q. That is what I'm referring to. No  
02:01:52 8 specific discussions whatsoever?

02:01:55 9 A. I don't recall any specific  
02:01:56 10 discussions about -- well, rephrase the question  
02:02:01 11 because I'm not sure I understood the question.

02:02:04 12 Q. Did anyone at Sterling Stamos ever  
02:02:09 13 raise any issues or concerns with the fact that  
02:02:15 14 Madoff wanted to keep his relationship with Saul  
02:02:19 15 Katz secret and confidential?

02:02:22 16 A. I don't believe anyone said secret.  
02:02:25 17 I believe the discussion was about confidentiality  
02:02:27 18 and privacy. And I do recall general conversations  
02:02:31 19 about understanding that that was the nature of  
02:02:36 20 Mr. Madoff's investment business, that it was highly  
02:02:39 21 confidential, highly private. That it was a private  
02:02:44 22 club that you were only invited into, difficult to  
02:02:48 23 get access to and the like. So that's why we had to  
02:02:50 24 potentially deal with this issue, if Mr. Katz had to  
02:02:54 25 disclose a lot of information. If we became

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02:02:59 1 registered.

02:02:59 2 Q. And did the fact that the nature of  
02:03:01 3 Mr. Madoff's investment business was, you said  
02:03:08 4 highly private, did that concern you in any way?

02:03:12 5 A. It was my understanding at that time  
02:03:16 6 that that was the nature of many hedge fund  
02:03:19 7 investors. The most exclusive, hard-to-get access  
02:03:23 8 to investors were, generally speaking, hard to get  
02:03:26 9 access to, highly private, highly confidential.

02:03:32 10 Q. Did any other investors in Sterling  
02:03:35 11 Stamos ever raise any concerns with having to  
02:03:40 12 disclose their relationship or investments with  
02:03:44 13 Madoff if Sterling Stamos were to register as an  
02:03:48 14 investment advisor?

02:03:49 15 A. I don't recall any conversations like  
02:03:50 16 that.

02:03:51 17 Q. So as far as you recall, the only  
02:03:53 18 investor in Sterling Stamos who raised concerns with  
02:03:57 19 having to disclose their Madoff investments if  
02:04:01 20 Sterling Stamos were to register as an investment  
02:04:04 21 advisor was Saul Katz?

02:04:05 22 A. To be specific, Sterling Equities,  
02:04:07 23 and those set of partners who were part owners of  
02:04:11 24 our business.

02:04:12 25 Q. So the Sterling Equities and Sterling

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02:04:15 1 partners as a whole had raised the issue of having  
02:04:18 2 to disclose their investments with Madoff if  
02:04:21 3 Sterling Stamos were to register as an investment  
02:04:23 4 advisor?

02:04:24 5 MR. GOUDISS: I object. Go ahead.

02:04:26 6 A. I believe I answered, through  
02:04:29 7 Mr. Katz.

02:04:29 8 Q. Okay. Thank you.

02:04:37 9 Did you have any discussions with  
02:04:39 10 David Katz concerning whether Sterling Stamos should  
02:04:42 11 register as an investment advisor?

02:04:45 12 A. I may have but I don't recall them.

02:04:47 13 Q. Did you have any discussions with  
02:04:49 14 Fred Wilpon as to whether Sterling Stamos should  
02:04:52 15 register as an investment advisor?

02:04:58 16 A. I may have, but I don't recall.

02:05:04 17 Q. Did you have any discussions with  
02:05:06 18 David Katz or Fred Wilpon concerning Madoff's  
02:05:12 19 concern that if Sterling Stamos were to register as  
02:05:16 20 an investment advisor Sterling Equities or the  
02:05:19 21 Sterling partners would have to disclose their  
02:05:22 22 relationship with Madoff?

02:05:24 23 A. I don't recall having that  
02:05:25 24 conversation with Fred Wilpon or David Katz. I do  
02:05:28 25 recall having a conversation like that either

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02:05:31 1 directly with Saul or through my staff, with Saul  
02:05:36 2 Katz.

02:05:41 3 Q. Earlier this morning we discussed, or  
02:05:46 4 you testified to receiving monthly statements  
02:05:50 5 concerning your individual Madoff account, right?

02:05:53 6 A. Yes.

02:05:54 7 Q. Okay. I believe you also testified  
02:05:57 8 that you reviewed these statements regularly; is  
02:06:00 9 that right?

02:06:01 10 A. Yes.

02:06:01 11 Q. When you reviewed your monthly Madoff  
02:06:04 12 statements, what was the purpose of that review?

02:06:08 13 A. To see the amount of return that had  
02:06:10 14 been generated in the prior month.

02:06:14 15 Q. And when you -- were there any other  
02:06:18 16 reasons to review the statements?

02:06:20 17 A. Over time I became more interested in  
02:06:22 18 the set of investments and how they were being  
02:06:26 19 generated.

02:06:28 20 Q. Did you review the statements to try  
02:06:31 21 to ascertain Madoff's investment strategy?

02:06:36 22 A. To some extent, yes.

02:06:38 23 Q. And can you explain to me how you did  
02:06:43 24 that?

02:06:46 25 A. Yes.

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02:06:48 1 Q. Can you please do it for me now?

02:06:50 2 A. Generally speaking, I would look at  
02:06:52 3 the statement, look at the dates that he went into  
02:06:55 4 the market, and the dates that he came out of the  
02:06:57 5 market. Then periodically I would look to my review  
02:07:02 6 of the equity markets on whatever investment  
02:07:09 7 register I had to see if that's a period of time  
02:07:14 8 which the market went up, and to look at when the  
02:07:19 9 puts and the calls were placed.

02:07:21 10 Q. And what were your conclusions after  
02:07:23 11 reviewing the statements as you just described?

02:07:27 12 MR. GOUDISS: I object. Go ahead.

02:07:29 13 A. My conclusion was that the investment  
02:07:33 14 returns were a footing, month by month, to what I  
02:07:37 15 expected. Footing is probably a general word, but  
02:07:42 16 they were accurate.

02:07:45 17 Q. What do you mean by they were  
02:07:47 18 accurate? I'm sorry, I don't understand.

02:07:50 19 A. That if, for example, the funds were  
02:07:54 20 up two percent, it looked that he had entered the  
02:07:59 21 market and exited the market with a two percent  
02:08:02 22 gain, at a time when the market went up.

02:08:04 23 Q. So that his gain and the market  
02:08:08 24 correlated to a certain extent?

02:08:10 25 A. Absent the put and call cost. Or he

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02:08:12 1 was in treasuries.

02:08:18 2 Q. Did you reach any other conclusions  
02:08:22 3 after reviewing your monthly Madoff statements?

02:08:25 4 A. Not that I can recall.

02:08:31 5 Q. Did you notice when reviewing your  
02:08:34 6 monthly statements that the returns were consistent?

02:08:39 7 A. Month-to-month?

02:08:40 8 Q. Yes, month-to-month.

02:08:42 9 A. Yes.

02:08:43 10 Q. Did there ever come a time when the  
02:08:48 11 monthly returns that you reviewed dropped?

02:08:53 12 A. Yes.

02:08:55 13 Q. Were the returns -- were the returns  
02:09:05 14 ever negative returns?

02:09:08 15 A. I recall some negative months.

02:09:10 16 Q. You do recall some negative months?

02:09:13 17 A. I believe so.

02:09:14 18 Q. And how often do you recall seeing a  
02:09:17 19 negative return?

02:09:18 20 A. I don't recall. But I recall, to be  
02:09:22 21 clear, either negative months or months that were  
02:09:25 22 substantially less than the market's appreciation  
02:09:28 23 that month.

02:09:30 24 Q. You do not recall specific instances?

02:09:34 25 A. I can't -- I don't recall. It's many

02:09:37 1 years ago; I don't recall the dates.

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02:11:43 20  
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Q. And then Saul Katz is on this list of advisors. We discussed earlier this morning that Saul Katz gave you -- provided advice on which firm -- managing, what management funds to invest in; is that right?

MR. GOUDISS: I object. Go ahead.

A. I believe that what I said was that Mr. Katz introduced us to potential managers.

Q. Did Mr. Saul Katz ever provide any counsel or advice as to what managers to invest in?

A. Generally speaking at that time, I believe the answer to that would be yes.



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02:12:05 1 Q. Other than providing information as  
02:12:09 2 to what managers to invest in, did Mr. Saul Katz  
02:12:12 3 provide any other information concerning investing?

02:12:18 4 A. Can you be more clear about what you  
02:12:20 5 mean by information?

02:12:26 6 Q. What investment advice did Saul Katz  
02:12:31 7 provide you at this point in time?

02:12:34 8 A. I can think of an example of the kind  
02:12:38 9 of advice that he gave me.

02:12:39 10 Q. Okay. Please give me that example.

02:12:41 11 A. One example that I recall was his  
02:12:43 12 advice to look for managers who hit, in his words,  
02:12:46 13 singles and doubles, not triples and home runs, for  
02:12:50 14 investors who generated stable, consistent returns.

02:12:56 15 Q. Did he provide you any other advice?

02:13:02 16 A. I can't recall the specific advice  
02:13:04 17 that he provided me back in 2002 -- or '4.

02:13:10 18 Q. '4. At this time in 2004, how would  
02:13:13 19 you characterize Mr. Katz's involvement in the  
02:13:16 20 investment aspect of Sterling Stamos?

02:13:19 21 A. Minimally, relatively minimal.

02:13:23 22 Q. Other than the factors that we  
02:13:25 23 discussed earlier?

02:13:26 24 A. Other than periodic introductions and  
02:13:29 25 reviewing of his own investment portfolio, by that

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02:13:33 1 time his involvement in the investment process was  
02:13:35 2 fairly minimal.

02:13:36 3 Q. Was his involvement in the investment  
02:13:38 4 process more than that at any time?

02:13:42 5 A. Yes.

02:13:42 6 Q. And when was that?

02:13:44 7 A. When we first launched the firm.

02:13:47 8 Q. And what was Saul Katz's involvement  
02:13:49 9 in the investment process when you first launched  
02:13:52 10 the firm?

02:13:54 11 A. He was, I would say highly involved  
02:13:55 12 for the first three months.

02:13:57 13 Q. And can you describe his involvement  
02:13:58 14 in the first three months?

02:14:00 15 A. Yes. He, and his partners, provided  
02:14:04 16 the primary vast majority of the initial capital,  
02:14:09 17 and in some of those investments, some of the  
02:14:12 18 capital that he provided with us were in-kind  
02:14:15 19 investments, in the names of managers that he prior  
02:14:19 20 held.

02:14:19 21 Q. Okay.

02:14:20 22 A. So, in that context he introduced us  
02:14:22 23 to those managers.

02:14:27 24 Q. What other involvement did he have,  
02:14:30 25 did Mr. Saul Katz have during those first three

## PETER S. STAMOS - August 19, 2010

02:14:33 1

months?

02:14:34 2

A. He was highly involved in the

02:14:36 3

decision-making about the setting up of the

02:14:39 4

business.

02:14:39 5

Q. What do you mean by that, by the

02:14:41 6

setting up of the business?

02:14:43 7

A. What office space we would use, for

02:14:45 8

example, what our cost structure would be, how much

02:14:50 9

we should pay for employees, how many employees we

02:14:55 10

should have.

02:14:55 11

Q. Anything else?

02:15:02 12

A. Just general advice like that.

02:15:04 13

That's all I can recall.

02:15:06 14

Q. At the beginning, the inception of

02:15:12 15

Sterling Stamos in June of '02, what was David

02:15:15 16

Katz's role?

02:15:18 17

A. I would say similar to Saul's, but as

02:15:21 18

a back seat to Saul. In other words, he would

02:15:23 19

attend the same meetings and would occasionally make

02:15:27 20

comments as well.

02:15:28 21

Q. Did David Katz ever manage any of the

02:15:33 22

funds?

02:15:35 23

A. Yes.

02:15:36 24

Q. Tell me about the funds that David

02:15:38 25

Katz managed, for Sterling Stamos.

**PETER S. STAMOS - August 19, 2010**

02:15:44 1           A.           Well, I recall for a brief period of  
02:15:47 2 time that he managed a small portion of capital in a  
02:15:50 3 trading account that we set up on our behalf.

02:15:54 4           Q.           Was that SP Trading?

02:15:56 5           A.           I believe that was the name, SP  
02:15:58 6 Trading.

02:15:58 7           Q.           And for how long did David Katz  
02:16:01 8 manage the SP Trading fund?

02:16:03 9           A.           I don't recall the exact amount of  
02:16:04 10 time. I believe it was somewhere between a year to  
02:16:08 11 18 months. It could have been less, could have been  
02:16:11 12 six months.

02:16:12 13          Q.           Okay. Do you recall why he stopped?

02:16:14 14          A.           Yes.

02:16:15 15          Q.           Why was that?

02:16:16 16          A.           We asked him to stop.

02:16:18 17          Q.           Why did you ask him to stop?

02:16:19 18          A.           Because he had a drawdown that was  
02:16:22 19 outside the range of volatility that we felt  
02:16:25 20 comfortable with.

02:16:26 21          Q.           What do you mean by a drawdown?

02:16:29 22          A.           A negative month.

02:16:30 23          Q.           I see.

02:16:34 24                   Did Saul Katz ever manage any  
02:16:36 25 Sterling Stamos funds?

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02:16:39 1 A. Not to my recollection.

02:16:42 2 Q. If we wanted to know whether Saul  
02:16:45 3 Katz, or if you wanted to know whether Saul Katz had  
02:16:48 4 managed any Sterling Stamos fund, are there any  
02:16:51 5 records or documents that you would review to  
02:16:52 6 determine that?

02:16:55 7 A. I don't recall any documents that  
02:16:57 8 would suggest that.

02:17:02 9 Q. Do you have documents that identify  
02:17:06 10 who manages what funds?

02:17:07 11 A. Yes.

02:17:08 12 Q. So if you wanted to know you could  
02:17:10 13 review documents identifying the fund managers; is  
02:17:14 14 that right?

02:17:15 15 A. I believe we have records going back  
02:17:16 16 since inception.

02:17:18 17 Q. Okay. Other than the SP Trading  
02:17:22 18 fund, did David Katz manage any other funds for  
02:17:26 19 Sterling Stamos?

02:17:26 20 A. Not to my recollection.

02:17:48 21 Q. Before partnering with Sterling  
02:17:50 22 Stamos -- or with Sterling, in forming Sterling  
02:17:54 23 Stamos, in June of '02 when you formed the firm, did  
02:17:58 24 you do any diligence of Sterling before forming the  
02:18:02 25 partnership?

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02:18:03 1 A. Are you referring to due diligence?

02:18:06 2 Q. Yes.

02:18:07 3 A. I don't recall doing any due  
02:18:09 4 diligence of Sterling other than having gotten to  
02:18:13 5 know them and developing a trust-based relationship  
02:18:16 6 with them.

02:18:18 7 Q. Did you engage in any analysis or any  
02:18:24 8 investigation whatsoever of Sterling's assets before  
02:18:28 9 you formed Sterling Stamos in June of '02?

02:18:34 10 A. Not to my recollection.

02:18:38 11 Q. Ashok Chachra and Kevin Okimoto were  
02:18:44 12 the other two founding partners along with you of  
02:18:47 13 Sterling Stamos; is that right?

02:18:49 14 A. We refer to them as founding  
02:18:52 15 partners. They were not partners when the firm was  
02:18:55 16 initiated. The first two to be made partners, in  
02:18:58 17 addition to.

02:19:00 18 Q. Okay. Do you know if they performed  
02:19:02 19 any diligence or investigation of Sterling before  
02:19:06 20 June of '02?

02:19:07 21 A. They may have. I'm not aware of  
02:19:09 22 that.

02:19:22 23 Q. Okay. I think we're done with that  
02:19:30 24 document, Mr. Stamos.

02:19:38 25 What benefits or advantages did the

## PETER S. STAMOS - August 19, 2010

02:19:41 1 Sterling side of the partnership bring to Sterling  
02:19:45 2 Stamos?

02:19:46 3 MR. GOUDISS: I object. Go ahead.

02:19:49 4 A. Three advantages that I can think of.  
02:19:52 5 First is they provided seed capital for the initial  
02:19:58 6 set of limited partner investments. Second is that  
02:20:02 7 they introduced other potential investors to us.  
02:20:09 8 And then, more generally speaking, they had a  
02:20:15 9 sterling reputation as owners of the New York Mets  
02:20:17 10 and as successful real estate investors that gave us  
02:20:22 11 credibility as we started to build the business.

02:20:26 12 Q. With respect to the seed capital, do  
02:20:29 13 you know how they funded the seed capital in  
02:20:32 14 Sterling Stamos?

02:20:33 15 A. Are you asking what the source of  
02:20:34 16 that capital was?

02:20:35 17 Q. Yes.

02:20:36 18 A. I don't know what the source of -- I  
02:20:39 19 believe you're talking about the working capital?

02:20:41 20 Q. Yes.

02:20:42 21 A. I don't know what the source of their  
02:20:43 22 working capital was.

02:20:44 23 Q. Do you know if they withdrew funds  
02:20:47 24 from Madoff to invest in Sterling Stamos?

02:20:52 25 A. I do not know the answer to that

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02:20:53 1 question. Talking about working capital, I think it  
02:20:58 2 was \$500,000. I don't know what the source of that  
02:21:01 3 was.

02:21:07 4 Q. And with respect to point 2 with  
02:21:10 5 potential investors, referring potential investors  
02:21:12 6 to Sterling Stamos, do you know if any of the  
02:21:15 7 investors that they referred to Sterling Stamos, if  
02:21:19 8 they were also Madoff investors as well?

02:21:23 9 A. I believe that that is true.

02:21:27 10

02:21:30 11

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REDACTED

02:25:05 4

02:25:08 5

02:25:09 6

Q. And what was your response to

02:25:12 7

REDACTED

concern that Madoff might be

02:25:15 8

front-running?

02:25:19 9

A. I remember my response. It was,

02:25:22 10

first, I am not, have not done due diligence on

02:25:27 11

Mr. Madoff, he's not in our investment portfolio,

02:25:29 12

and I cannot give you counsel as to how to invest in

02:25:35 13

managers outside my own portfolio. I said, there

02:25:38 14

are issues that have been raised but my assumption

02:25:40 15

is, having been an investor myself, that Mr. Madoff

02:25:45 16

is incredibly honest, incredibly reputable and

02:25:49 17

perhaps one of the best hedge fund managers in

02:25:52 18

modern history.

02:25:53 19

With all that said, I still believe

02:25:55 20

it is prudent to not put more than 10 percent of

02:25:58 21

your assets in any one manager.

02:26:01 22

02:26:05 23

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02:26:06 24

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Q. And did he tell you, REDACTED tell

02:26:33 7

you why he was concerned that his money with

02:26:36 8

Mr. Madoff might be at risk?

02:26:39 9

A. I don't recall him telling me why,

02:26:41 10

other than explaining to me that he still had a

02:26:44 11

substantial portion of his assets with Mr. Madoff.

02:26:47 12

Q. And what was your response to that

02:26:50 13

comment from REDACTED ?

02:26:52 14

A. At that time my view was, and I

02:26:55 15

expressed it to him, was that there seems to be no

02:26:58 16

reason to be worried about this capital being at

02:27:01 17

risk. However, it's still concentration risk and

02:27:07 18

there's still the possibility that he could retire,

02:27:09 19

there's still the possibility he could be hit by a

02:27:12 20

truck, there's the possibility that he could have a

02:27:14 21

regulatory review in which your assets are held up

02:27:17 22

for a period of time. And for, again, those reasons

02:27:20 23

I wouldn't put more than 10 percent of my assets in

02:27:23 24

any one manager. But I put it in the same category

02:27:26 25

as an investment with any other investment manager

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02:27:27 1 like Mr. Madoff, such as D.E. Shaw or any other  
02:27:32 2 similarly situated manager.

02:27:37 3

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02:27:53 10

02:27:55 11

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02:30:11 25

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Q. And with respect to Madoff, did you begin to monitor the broker-dealer issue?

A. No. Never did due diligence on Mr. Madoff.

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1 Q. Now, those three issues, the  
2 front-running, single-manager risk and the  
3 broker-dealer issues --

4 A. Repeat that slowly.

5 Q. That's fair.

6 The three issues that we discussed  
7 that were raised with Madoff, front-running,  
8 broker-dealer and single-manager.

9 A. The issues that I discussed were  
10 not -- I never, I didn't raise front-running.  
11 Mr. Dunleavy raised front-running. I raised the  
12 other two.

13 Q. All right. Maybe raised is the wrong  
14 word. The subject matter of front-running,  
15 single-manager and broker-dealer, those topics, you  
16 discussed those topics with **Redacted** ; is that  
17 right?

18 MR. GOUDISS: I object. Go ahead.

19 A. I believe that I discussed all three  
20 of them with **Redacted** . I can't recall  
21 specifically all three with **Redacted** . I know I  
22 discussed all three with Mr. Katz.

23 Q. Okay. When did you first discuss the  
24 issue of front-running with Mr. Katz? By Mr. Katz  
25 we're talking about Saul Katz.



02:32:41 1 A. Saul Katz.

02:32:43 2 I don't recall when the first time  
02:32:45 3 was.

02:32:49 4 Q. Was it before or after your  
02:32:51 5 discussion with Mr. Dunleavy about Dunleavy's  
02:32:55 6 concerns with front-running and Madoff?

02:32:59 7 A. I don't recall. Could have been  
02:33:00 8 before, could have been after. There were rumors of  
02:33:05 9 that, so he could have raised it with me, but I  
02:33:08 10 don't recall.

02:33:10 11 Q. What did you tell Mr. Saul Katz about  
02:33:15 12 the possibility that Madoff may be front-running?

02:33:19 13 MR. GOUDISS: I object. Go ahead.

02:33:21 14 A. My view was that I didn't believe  
02:33:25 15 that that was true. I just didn't believe it was  
02:33:29 16 true.

02:33:29 17 Q. So you told Saul Katz that you did  
02:33:32 18 not think that the rumor was true; is that what  
02:33:36 19 you're saying?

02:33:37 20 A. Yes.

02:33:38 21 Q. What else did you discuss with  
02:33:39 22 Mr. Saul Katz concerning the possibility that Madoff  
02:33:44 23 may be front-running?

02:33:47 24 MR. GOUDISS: I object. Go ahead.

02:33:48 25 A. If he were front-running, what would

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02:33:51 1 the implications be. Or if he were accused of  
02:33:54 2 front-running, what could the implications be.

02:33:56 3 Q. And what did you discuss about the  
02:33:57 4 implications?

02:33:58 5 A. I remember Mr. Katz explaining to me  
02:34:02 6 that he didn't believe that that were true, that  
02:34:05 7 Mr. Madoff had been reviewed regularly by the SEC,  
02:34:12 8 that he was one of the most reputable investors,  
02:34:15 9 that he'd known him for 25 years, that he was highly  
02:34:18 10 honest, highly honorable. And for those reasons he  
02:34:22 11 didn't believe it were true and he asked me what I  
02:34:29 12 think.

02:34:33 13 Q. Is this over the course of several  
02:34:39 14 discussions or was this one discussion that you  
02:34:42 15 recollect?

02:34:42 16 A. I don't recollect a specific  
02:34:44 17 discussion. I just recall having a few discussions  
02:34:50 18 about these set of topics.

02:34:52 19 Q. And by set of topics we're talking  
02:34:54 20 about front-running, single-manager and the  
02:34:57 21 broker-dealer issue, with Mr. Katz?

02:35:00 22 A. In the context of initially a  
02:35:04 23 diversification.

02:35:06 24 Q. I'm sorry, what was that?

02:35:07 25 A. In the context of my explaining to

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02:35:09 1 Mr. Katz why I thought it was a good idea for him to  
02:35:12 2 be diversified.

02:35:15 3 Q. So that the diversification issue was  
02:35:18 4 a continuous subject of discussion with Mr. Katz?

02:35:22 5 A. Yes.

02:35:25 6 Q. And within those discussions of  
02:35:27 7 diversification the issue of front-running, of  
02:35:32 8 Madoff possibly front-running, came up?

02:35:34 9 MR. GOUDISS: I object. Go ahead.

02:35:36 10 A. May have come up in the context of  
02:35:38 11 diversification, it may have come up in the context  
02:35:41 12 of the competition that I felt with Madoff, of  
02:35:44 13 wanting to get more, have Mr. Katz invest more money  
02:35:48 14 with me as opposed to invest money with somebody  
02:35:52 15 else.

02:35:52 16 Q. So, in the context of further  
02:35:55 17 diversifying away from Madoff to Sterling Stamos?

02:35:57 18 A. Not necessarily away from Madoff.  
02:35:59 19 When they sold the building, I'd like to get that  
02:36:03 20 money invested in 25 managers, not in one manager.

02:36:07 21 Q. But one of the purposes of Sterling  
02:36:09 22 Stamos was to diversify the Katz and Wilpon family's  
02:36:16 23 investments in Madoff, right?

02:36:17 24 A. Purpose was initially  
02:36:19 25 diversification. And then later for me it became

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02:36:22 1 competition.

02:36:24 2 Q. Right. But initially, as we  
02:36:26 3 discussed earlier, they had a substantial amount of  
02:36:28 4 their assets in Madoff, correct?

02:36:30 5 A. That was my understanding.

02:36:31 6 Q. Right. And one of the stated  
02:36:34 7 purposes of forming Sterling Stamos for the Katz/  
02:36:38 8 Wilpon family was to diversify some of those assets  
02:36:40 9 into another investment vehicle; isn't that right?

02:36:44 10 A. To diversify their overall portfolio  
02:36:47 11 of assets because they had money with Madoff, but  
02:36:49 12 they also had real estate, baseball team and various  
02:36:53 13 other assets, funds.

02:36:56 14 Q. When was the first time you raised,  
02:37:00 15 or when was the first time the issue of the  
02:37:03 16 broker-dealer Madoff issue, when was that first  
02:37:06 17 discussed with Saul Katz?

02:37:08 18 A. I don't recall the first time. I  
02:37:10 19 do -- I don't believe it was at any time in the  
02:37:14 20 early years of the firm, because it was not an issue  
02:37:16 21 that we monitored in the early years of the firm.

02:37:19 22 Q. So, the discussion you had with  
02:37:25 23 Mr. Saul Katz concerning the broker-dealer issues  
02:37:29 24 with Madoff, was that before or after Mr. Dunleavy  
02:37:35 25 raised his concerns with the broker-dealer issue?

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02:37:40 1           A.           It may have been before and it may  
02:37:41 2           have been after, it may have been both. I think it  
02:37:44 3           was likely it was both, before and after.

02:37:46 4           Q.           And who raised the broker-dealer  
02:37:49 5           issue in those discussions, was it you or Mr. Saul  
02:37:52 6           Katz?

02:37:53 7           A.           I don't recall whether it was he who  
02:37:58 8           initiated or whether it was I that initiated it or  
02:38:01 9           whether it was another one of our colleagues/  
02:38:04 10          employees who initiated it.

02:38:07 11          Q.           Who were, or who would have been the  
02:38:11 12          other employees or colleagues that would have raised  
02:38:13 13          the broker-dealer issue?

02:38:17 14                   MR. GOUDISS: I object. Go ahead.

02:38:18 15          A.           Best of my knowledge the most likely  
02:38:21 16          individuals would have been either Kevin Okimoto or  
02:38:27 17          Ashok Chachra, who was the chief investment  
02:38:28 18          strategist.

02:38:29 19          Q.           The discussions that you had with  
02:38:31 20          Saul Katz concerning broker-dealer, the possible  
02:38:35 21          broker-dealer issues with Madoff, what what the  
02:38:38 22          subject matter, or what was -- what did you discuss?

02:38:41 23                   MR. GOUDISS: I object. Go ahead.

02:38:46 24          A.           Post-2005, I believe, post-2005, late  
02:38:54 25          2005, early 2006, the existence of a manager who was

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02:38:58 1 both a broker-dealer and a fund manager became not a  
02:39:02 2 red flag for us but a yellow flag, one of the  
02:39:06 3 operational due diligence issues that we looked at,  
02:39:09 4 and was one of the indications for us that we should  
02:39:12 5 monitor it closely and consider whether we should  
02:39:16 6 continue to be an investor in that fund.

02:39:19 7 So I put it in the same context of  
02:39:21 8 investment that we made, for example, with D.E. Shaw  
02:39:24 9 who was a fund manager but also was his own  
02:39:27 10 broker-dealer and was yet another point of reference  
02:39:30 11 for why we would not put more than five or ten  
02:39:34 12 percent into any one manager.

02:39:37 13 Q. And did you express to Saul Katz the  
02:39:41 14 fact that this broker-dealer relationship was a  
02:39:50 15 yellow flag under your due diligence process?

02:39:53 16 A. Expressed it in the terms of not best  
02:39:55 17 practices. For a manager to be identified as a core  
02:39:58 18 manager, he would have to have best practices across  
02:40:02 19 the board. And a core manager could get a larger  
02:40:05 20 allocation of capital, as much as 10 or even 15  
02:40:08 21 percent in any one of our funds. So, again, it was  
02:40:11 22 a competitive discussion.

02:40:13 23 Q. Okay. But did you tell Saul Katz  
02:40:15 24 that the broker-dealer issue was a yellow flag from  
02:40:19 25 your due diligence perspective?

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02:40:21 1 A. We had not done due diligence on  
02:40:24 2 Bernie Madoff.

02:40:24 3 Q. I'm not asking you about that. I'm  
02:40:28 4 asking you, did you tell him that the broker-dealer  
02:40:31 5 issue was a yellow flag under your due diligence  
02:40:35 6 processes?

02:40:35 7 A. I'm not sure if I referred to it as a  
02:40:37 8 yellow flag, but at some point, as one of the owners  
02:40:41 9 of our business, he became aware of the kinds of  
02:40:43 10 issues that we started to monitor and put on our  
02:40:47 11 operational due diligence checklist, and I'm  
02:40:48 12 confident that he knew that that was one of the  
02:40:50 13 operational due diligence issues that we raised with  
02:40:53 14 managers.

02:40:54 15 Q. Do you recall having any specific  
02:40:57 16 discussions with Saul Katz about broker-dealer  
02:41:00 17 issues being an item on your due diligence  
02:41:05 18 checklist?

02:41:06 19 A. I don't recall a specific  
02:41:07 20 conversation. I recall a general conversation, or  
02:41:11 21 set of conversations. I apologize.

02:41:17 22 Q. Did you also have a discussion with  
02:41:20 23 him about the broker-dealer issue as being a yellow  
02:41:23 24 flag vis-a-vis Madoff?

02:41:25 25 MR. GOUDISS: I object. Go ahead.

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02:41:30 1 A. Yes.

02:41:31 2 Q. And what did you tell him in that  
02:41:34 3 discussion?

02:41:35 4 A. It raised an operational issue for us  
02:41:40 5 that suggested to us that we needed -- if we had a  
02:41:43 6 manager who did that, we would monitor it very  
02:41:47 7 closely.

02:41:47 8 Q. Did you say anything else to Saul  
02:41:49 9 Katz about that issue?

02:41:51 10 A. I believe we had a discussion about  
02:41:53 11 the kinds of issues that that could raise.

02:41:56 12 Q. And what did you tell him about the  
02:41:59 13 kinds of issues that that could raise?

02:42:01 14 A. I recall two issues. One is that it  
02:42:05 15 was increasingly becoming not best practices, that  
02:42:09 16 in the past a number of managers had done that for  
02:42:12 17 convenience purposes, but that increasingly that was  
02:42:15 18 not best practice. And then, in particular, the  
02:42:18 19 issue that it could possibly raise is that if one  
02:42:22 20 were both a broker-dealer and an investment manager,  
02:42:25 21 one could use information that when garnered from  
02:42:28 22 one's broker-dealership would give you advantages as  
02:42:32 23 an investment manager, and that would be  
02:42:35 24 inappropriate.

02:42:36 25 Q. Is that related to the front-running



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02:42:38 1 issue that we discussed earlier?

02:42:39 2 A. That's related to having information  
02:42:42 3 that could allow one to possibly front-run.

02:42:50 4 Q. Were any of these discussions that  
02:42:52 5 you had with Saul Katz concerning the broker-dealer  
02:42:54 6 issue or the front-running issue reduced to writing  
02:42:58 7 in any way?

02:42:59 8 A. Not to my recollection.

02:43:01 9 Q. Were these discussions in person or  
02:43:04 10 over the phone?

02:43:05 11 A. I believe both in person and over the  
02:43:07 12 phone.

02:43:14 13 Q. How many in-person meetings did you  
02:43:17 14 have with Saul Katz where you discussed the Madoff  
02:43:20 15 front-running issue and the Madoff broker-dealer  
02:43:24 16 issue?

02:43:24 17 MR. GOUDISS: I object. Go ahead.

02:43:25 18 A. Just to be clear, I did not raise the  
02:43:27 19 Madoff front-running issue, on a regular basis. I  
02:43:30 20 raised the issue of Mr. Madoff on a regular basis  
02:43:32 21 because on a month-to-month basis my performance  
02:43:36 22 returns were being compared to Mr. Madoff's returns.

02:43:38 23 Q. So on a monthly basis you had  
02:43:40 24 discussions with Saul Katz concerning Madoff  
02:43:44 25 returns?

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02:43:44 1           A.           Either I or a member of my firm on a  
02:43:47 2 regular basis, most likely monthly, would have some  
02:43:51 3 conversation with Mr. Katz about performance of  
02:43:56 4 Bernard Madoff versus performance of his capital  
02:43:58 5 with us.

02:44:04 6           Q.           What were the issues that were raised  
02:44:06 7 by Saul Katz during these regular discussions?

02:44:10 8           A.           Two very specifically. On any  
02:44:12 9 concerns that I would raise about Mr. Madoff, he  
02:44:15 10 dismissed it categorically, as these are not issues  
02:44:20 11 that he needed to worry about, other than  
02:44:22 12 diversification. And he had a plan to diversify  
02:44:25 13 over time.

02:44:26 14                           And number two was a, I would say,  
02:44:29 15 constant comparison about the risk adjusted returns  
02:44:34 16 of our funds versus Bernard Madoff's. Some months  
02:44:36 17 we did better and some months we didn't do as well.

02:44:39 18           Q.           What was your response when Saul Katz  
02:44:42 19 categorically rejected some of the concerns that you  
02:44:46 20 expressed about Madoff?

02:44:47 21           A.           I was of the same opinion in those  
02:44:51 22 years.

02:44:51 23           Q.           And when we're talking about those  
02:44:53 24 years, what years are you referring to,  
02:44:55 25 specifically?

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02:44:56 1           A.           All the way to the time when the  
02:44:58 2 fraud was discovered, I had the same conclusion.  
02:45:02 3 Other than not putting more than 10 percent into a  
02:45:06 4 manager, and that as a fiduciary I could not put my  
02:45:10 5 capital, my fund's capital there, I agreed with him.  
02:45:13 6 Legend in the industry and all of the things that he  
02:45:17 7 said.

02:45:20 8           Q.           Did you ever express to him that  
02:45:23 9 given the fact that they had so much money in  
02:45:27 10 Madoff, that even though you both shared the  
02:45:31 11 conclusion that he wasn't front-running and that the  
02:45:34 12 broker-dealer issue that he had wasn't a substantial  
02:45:39 13 concern but that given the volume of their assets  
02:45:42 14 under management with Madoff, that he or Sterling  
02:45:45 15 should take another look at Madoff?

02:45:47 16           A.           I don't understand what you mean by  
02:45:48 17 take another look.

02:45:49 18           Q.           That they should engage in any --  
02:45:51 19 that Sterling should engage in any diligence with  
02:45:53 20 Madoff?

02:45:54 21           A.           I didn't think that was my -- no. I  
02:45:56 22 never did due diligence on Madoff and I never asked  
02:45:59 23 them to do due diligence on Madoff.

02:46:01 24           Q.           Did you ever recommend that they do  
02:46:04 25 due diligence on Madoff?

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02:46:06 1 A. Not to my recollection.

02:46:08 2 Q. Did you ever recommend that Sterling  
02:46:11 3 withdraw investments from Madoff?

02:46:17 4 A. Yes.

02:46:18 5 Q. Can you elaborate on those  
02:46:20 6 discussions?

02:46:21 7 A. To be clear, I viewed Bernard Madoff  
02:46:24 8 as my competition for the Sterling Equities' capital  
02:46:27 9 and I wanted 90 percent of their liquid assets with  
02:46:31 10 me and 10 percent -- with my firm, I should say --  
02:46:34 11 and 10 percent with Mr. Madoff.

02:46:35 12 Q. So when you had -- you had  
02:46:37 13 discussions with Saul Katz about withdraw --  
02:46:39 14 recommending that they withdraw money from Madoff,  
02:46:42 15 right? And then invest it with you?

02:46:44 16 A. I would say two things. Either new  
02:46:49 17 capital or capital they have, but I recommended the  
02:46:53 18 allocation be no more than 10 percent with  
02:46:55 19 Mr. Madoff. I didn't know their aggregate assets  
02:46:59 20 until years later I found out.

02:47:02 21 Q. Okay. But to get back to my  
02:47:03 22 question, was: Did you recommend that they withdraw  
02:47:08 23 funds from Madoff and invest it with Sterling  
02:47:10 24 Stamos?

02:47:11 25 A. I don't believe that I ever made that

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02:47:12 1 recommendation specifically, because one of the  
02:47:14 2 things that I was careful about as an investment  
02:47:17 3 advisor is to only advise on the funds that I have  
02:47:20 4 internally. And so when someone would ask me, like  
02:47:23 5 Mr. Katz, about his capital account with some other  
02:47:27 6 manager, I wouldn't -- I couldn't comment on the  
02:47:29 7 specific quality of that manager or suggest that he  
02:47:33 8 withdraw. But I could suggest to him that in  
02:47:36 9 general asset allocation would suggest you have no  
02:47:39 10 more than 10 percent in one manager, and let him  
02:47:42 11 draw the conclusion.

02:47:43 12 Q. So you never recommended to Saul Katz  
02:47:44 13 to withdraw his money from Madoff?

02:47:47 14 A. To be clear, recommended is the word  
02:47:49 15 that I'm pausing on. Did I suggest him to do that?  
02:47:52 16 Yes. Did I ask him to do that? Yes. But  
02:47:55 17 recommendation would assume that I had an investment  
02:47:59 18 recommendation about the fund and I didn't have -- I  
02:48:00 19 couldn't make an investment recommendation about  
02:48:03 20 that fund. It was not under our purview.

02:48:06 21 Q. Okay. So putting aside the term of  
02:48:08 22 art of recommendation, you suggested to him or you  
02:48:10 23 asked him to withdraw money from Madoff?

02:48:13 24 A. It's important, the distinction.

02:48:15 25 Q. No, I understand that. That's why

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02:48:18 1 I'm drawing it.

02:48:19 2 A. Yes.

02:48:21 3 Q. Okay. Did anyone at Sterling Stamos  
02:48:24 4 ever recommend to anyone at Sterling that they  
02:48:29 5 should, that Sterling should withdraw its assets  
02:48:32 6 from Madoff?

02:48:35 7 A. I don't know if anyone, in the way I  
02:48:37 8 use the word "recommend," formal, professional  
02:48:40 9 advice, did that. I believe that on a regular basis  
02:48:45 10 Mr. Chachra, who was assigned to Mr. Katz's account,  
02:48:51 11 encouraged him to diversify from Madoff and put more  
02:48:55 12 capital with us. But I say that in the context of  
02:48:58 13 competition. We wanted more of his capital, and we  
02:49:01 14 believed that whether it was Bernard Madoff or D.E.  
02:49:04 15 Shaw or Paul Singer or any other great hedge fund  
02:49:07 16 manager, you shouldn't put more than 10 percent with  
02:49:09 17 that manager, whoever he or she was.

02:49:11 18 Q. How did Mr. Chachra encourage Saul  
02:49:16 19 Katz to diversify his assets from Madoff?

02:49:18 20 MR. GOUDISS: I object. Go ahead.

02:49:20 21 A. One example I can think of is  
02:49:23 22 comparing what we knew of Mr. Madoff's returns  
02:49:26 23 versus our returns on a pre- and post-tax basis.

02:49:30 24 Q. And what were the conclusions of  
02:49:33 25 those comparisons?

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02:49:34 1           A.           Roughly speaking, what I recall is  
02:49:36 2           that on a pre-tax basis they were comparable. Our  
02:49:41 3           diversified portfolio of investment managers  
02:49:44 4           generated a comparable set of returns on a pre-tax  
02:49:47 5           basis but on a post-tax basis we actually out-  
02:49:51 6           performed and that was one of the encouraging  
02:49:53 7           reasons for Mr. Katz to put more of his new capital  
02:49:56 8           and existing capital, if he was willing to, with us.

02:50:01 9           Q.           How else did Mr. Chachra encourage  
02:50:05 10           Saul Katz to diversify his funds from Madoff?

02:50:08 11                       MR. GOUDISS: I object. Go ahead.

02:50:10 12           A.           I don't know the answer to that. I  
02:50:12 13           can remember one example.

02:50:17 14           Q.           Did Sterling Equities have -- strike  
02:50:23 15           that.

02:50:23 16                       Did the Wilpon and Katz networks  
02:50:28 17           provide any sort of unique due diligence  
02:50:31 18           capabilities that you're aware of?

02:50:33 19           A.           I don't understand what the Sterling  
02:50:36 20           Equities network is.

02:50:37 21           Q.           Let me rephrase the question because  
02:50:39 22           I was trying to do that.

02:50:41 23                       Did the Wilpon and Katz networks  
02:50:44 24           provide a unique, any unique due diligence  
02:50:47 25           capabilities?

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02:50:48 1 MR. GOUDISS: I object.

02:50:51 2 A. I don't -- I'm not aware of unique  
02:50:53 3 due diligence capabilities that they provided.

02:50:56 4 Q. Okay.

02:51:12 5 MR. BOHORQUEZ: Mark that as 2.  
02:51:14 6 (Exhibit PS-2 marked for  
02:51:17 7 identification.)

02:51:20 8 Q. What I've given you, Mr. Stamos, is  
02:51:22 9 Exhibit 2. It's a one-page doc -- or a two-page  
02:51:25 10 document entitled "The Sterling Stamos Difference."  
02:51:29 11 I just have one or two questions I want to ask you  
02:51:32 12 about it when you're ready to discuss.

02:52:04 13 A. Yes.

02:52:05 14 Q. Okay. If you can turn your attention  
02:52:09 15 to the second paragraph that starts with, "Internal  
02:52:12 16 due diligence network."

02:52:15 17 A. Yes.

02:52:16 18 Q. The second sentence says, "Founded  
02:52:20 19 over 30 years ago by the Wilpon and Katz families,  
02:52:23 20 Sterling Equities has developed a deep expertise in  
02:52:26 21 hedge funds, private equity and real estate."  
02:52:30 22 What is your understanding of  
02:52:32 23 Sterling Equities' deep expertise in hedge funds?

02:52:36 24 A. I believe that this phrase is what I  
02:52:39 25 would call marketing puffery.



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02:52:42 1

Q. Okay.

02:52:43 2

02:52:45 3

A. I believe that the actual experience in hedge funds that they had was investing in Bernard Madoff and two or three other hedge funds, but it was over a 30-year period of time.

02:52:48 4

02:52:51 5

02:52:54 6

Q. Okay. What were the other two hedge funds that they were invested in?

02:52:57 7

02:52:59 8

02:53:01 9

A. I don't remember their names, but I know one of them was a fund manager that they transferred over to us in kind.

02:53:03 10

02:53:06 11

02:53:10 12

Q. Okay. The next sentence beginning with, "In addition to," do you see that?

02:53:14 13

A. Um-hum.

02:53:14 14

02:53:15 15

02:53:18 16

02:53:21 17

02:53:25 18

Q. "In addition to providing a perspective that only experience can generate, the Wilpon and Katz networks also provide unique proprietary sourcing and due diligence capabilities."

02:53:26 19

02:53:28 20

What due diligence capabilities did the Wilpon and Katz network provide?

02:53:31 21

02:53:34 22

02:53:36 23

02:53:39 24

02:53:43 25

A. I think that was, referring to your prior question, I think this is, again, a bit of marketing puffery, if you will, about their business experience, giving us business judgment in the early days that was helpful to us in understanding whether

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02:53:45 1 a hedge fund manager ran a good business, for  
02:53:48 2 example.

02:53:49 3 Q. So it wasn't any specific industry  
02:53:52 4 knowledge of due diligence, specifically?

02:53:56 5 A. Well, if it was referring to I think  
02:53:58 6 real estate, that probably would be the case, and  
02:54:01 7 probably private equity as well, because they had  
02:54:05 8 funds that did that. But in hedge funds, I don't  
02:54:07 9 recall any specific due diligence capabilities they  
02:54:11 10 had other than business expertise.

02:54:15 11 Q. Okay.

02:54:15 12 I want to talk for a little bit about  
02:54:19 13 Sterling Stamos' due diligence practices. I guess  
02:54:26 14 discussion of those practices changed over time,  
02:54:28 15 they evolved over time. Is that right?

02:54:31 16 A. Yes.

02:54:31 17 Q. Okay. Let's start with at the  
02:54:34 18 beginning of the, at the inception of Sterling  
02:54:37 19 Stamos. Generally speaking, what were, what was  
02:54:43 20 Sterling Stamos' due diligence practices when  
02:54:46 21 evaluating investment managers?

02:54:47 22 A. Prior to becoming a registered  
02:54:49 23 investment advisor, I believe that our primary  
02:54:52 24 responsibility was to get access to managers that  
02:54:55 25 were hard to get access to, and that we did, beyond

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02:55:01 1 meeting the manager, we did very little, if any, due  
02:55:05 2 diligence other than negotiating to get access.

02:55:10 3 Q. Okay. And when did that change?

02:55:13 4 A. That changed over time, as we added  
02:55:16 5 staff and capability, but specifically the most  
02:55:20 6 significant move, in terms of building up  
02:55:24 7 operational due diligence, was in the hiring of a  
02:55:27 8 CFO, Mr. Kevin Barcelona. With his accounting  
02:55:31 9 expertise he began to do due diligence on managers.

02:55:35 10 Q. Okay. And what due diligence did  
02:55:39 11 Mr. Barcelona do on managers at the beginning?

02:55:42 12 A. He developed a complete list of due  
02:55:44 13 diligence issues that we should ask every manager.

02:55:48 14 Q. Do you still have that initial list  
02:55:52 15 somewhere?

02:55:52 16 A. Yes, I believe we submitted that.

02:55:59 17 Q. I just want to go through a couple  
02:56:02 18 basic due diligence steps.

02:56:05 19 So, prior to meeting with the fund  
02:56:08 20 manager, I understand that at some point Sterling  
02:56:10 21 Stamos began to undertake like a data gathering  
02:56:15 22 analysis of the fund manager.

02:56:17 23 A. Yes.

02:56:17 24 Q. When did you implement that step?

02:56:22 25 A. Early on in the first three to six

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02:56:24 1 months we started to collect data from whatever  
02:56:26 2 sources that we could obtain.

02:56:27 3 Q. That would include like monthly  
02:56:29 4 returns and any audited financial statements, TR  
02:56:35 5 along those lines?

02:56:36 6 A. My level of knowledge as CEO was  
02:56:39 7 looking at returns over time on a risk-adjusted  
02:56:43 8 basis and reports that the managers would provide.

02:56:46 9 Q. Of the fund managers?

02:56:48 10 A. Of the fund managers.

02:56:50 11 Q. And when did Sterling Stamos  
02:56:53 12 implement on-site visits of the fund managers, as  
02:56:58 13 part of its due diligence?

02:56:59 14 A. As part of its investment due  
02:57:01 15 diligence we met with managers before investing with  
02:57:04 16 them, to discuss their investment strategy and how  
02:57:07 17 much capacity we could get with the manager.

02:57:09 18 Q. So that was part of the initial due  
02:57:11 19 diligence that you did in the beginning?

02:57:13 20 A. Yes.

02:57:17 21 Q. And other than monthly returns and  
02:57:22 22 on-site interviews, were there any other aspects of  
02:57:26 23 investment due diligence that Sterling Stamos  
02:57:29 24 conducted in the beginning?

02:57:31 25 MR. GOUDISS: I object. Go ahead.

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02:57:33 1           A.           I recall an example of another kind  
02:57:35 2 of due diligence we did, which was to call some of  
02:57:37 3 the people, phone call, or speak with some of the  
02:57:40 4 people that were our informal advisors, to get their  
02:57:43 5 judgment on managers, A, that we should meet or  
02:57:48 6 managers that we were considering investing with.

02:57:52 7           Q.           And as part of Sterling Stamos' due  
02:57:56 8 diligence, there is an operational aspect of the due  
02:57:59 9 diligence process; is that right?

02:58:01 10           A.           I recall that beginning with  
02:58:05 11 Mr. Kevin Barcelona joining us as CFO in the firm in  
02:58:09 12 either 2003 or 2004.

02:58:11 13           Q.           So the operational component of your  
02:58:13 14 due diligence practices started with when  
02:58:17 15 Mr. Barcelona joined the firm?

02:58:19 16           A.           I recall that that's when it took on  
02:58:23 17 a formal process. I'm sure that in our interviews  
02:58:26 18 some operational issues were raised earlier as well,  
02:58:30 19 but it became a formal part of our process with  
02:58:33 20 Mr. Kevin Barcelona.

02:58:34 21           Q.           Generally speaking, what are the  
02:58:36 22 operational due diligence issues that are part of  
02:58:39 23 Sterling Stamos' due diligence process?

02:58:41 24           A.           Generally speaking, they fall into  
02:58:42 25 the category of investment due diligence, financial

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02:58:45 1 issues, operational issues.

02:58:48 2 Q. And what are the operational issues?

02:58:52 3 A. Examples of the kinds of operational  
02:58:54 4 issues are the number of back-office personnel to  
02:58:58 5 support a trading operation, for example.

02:59:00 6 Q. Anything else?

02:59:02 7 A. Well, are you talking about in 2002  
02:59:05 8 or over time?

02:59:06 9 Q. Let's start with 2002.

02:59:08 10 A. 2002, very little else, other than  
02:59:11 11 general conversations. Over time it became more  
02:59:13 12 formal and with the list that Mr. Barcelona  
02:59:16 13 developed for us, we specifically asked those  
02:59:19 14 questions.

02:59:20 15 Q. Other than the back-office questions,  
02:59:22 16 what other operational questions were included on  
02:59:25 17 this checklist?

02:59:27 18 A. I don't recall the specifics, but in  
02:59:29 19 general assets under management, growth of assets,  
02:59:31 20 inflows and outflows of capital, for example.

02:59:35 21 Q. What about the broker-dealer  
02:59:37 22 relationship issue, when did that become a part of  
02:59:39 23 your due diligence?

02:59:41 24 A. That became a part of our due  
02:59:43 25 diligence checklist with Mr. Kevin Barcelona as part

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02:59:46 1 of our process late 2004, I recall.

02:59:49 2 Q. How about third-party administrators,  
02:59:52 3 when did that become part of your due diligence?

02:59:55 4 A. Formally third-party administrator  
02:59:59 5 became an important issue for us after the Madoff --  
03:00:02 6 I believe it was after we found out that Mr. Merkin  
03:00:06 7 had had investments with Madoff in Gabriel.

03:00:10 8 Q. But prior to that time, was a third-  
03:00:15 9 party administrator part of your due diligence  
03:00:18 10 procedures, operational?

03:00:20 11 A. This is what I recall.

03:00:20 12 Q. Okay.

03:00:21 13 A. That we believed that a manager  
03:00:23 14 should have either an internal administration or a  
03:00:28 15 third-party administrator and an outside audit.  
03:00:31 16 That two of those three were required.

03:00:35 17 Q. Okay.

03:00:35 18 A. After Merkin, the Merkin event, we  
03:00:40 19 made -- we made it advisable to have all three. Not  
03:00:46 20 required, but advisable to have all three. Or at  
03:00:49 21 least two -- at least the independent administrator  
03:00:52 22 and an outside auditor. They don't necessarily have  
03:00:55 23 to have internal administration.

03:00:58 24 Q. Okay. So that was one of the lessons  
03:01:03 25 learned from the Merkin incident?

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03:01:05 1 A. That was one of the lessons learned  
03:01:07 2 from the Merkin incident.

03:01:08 3 Q. How did Merkin affect -- let me  
03:01:13 4 rephrase that.

03:01:14 5 Did you implement any other due  
03:01:17 6 diligence, any other changes to your due diligence  
03:01:19 7 practices in response to the Merkin incident?

03:01:23 8 A. We may have but that's the one that I  
03:01:25 9 recall.

03:01:26 10 Q. Okay. You recall that Sterling  
03:01:34 11 Stamos had investments in Bayou?

03:01:37 12 A. Yes.

03:01:41 13 Q. Funds were redeemed from Bayou I  
03:01:44 14 think in February of '05, sometime around then,  
03:01:49 15 right?

03:01:49 16 A. Yes.

03:01:50 17 Q. Why did Sterling Stamos withdraw its  
03:01:55 18 funds from Bayou at that time?

03:01:59 19 A. We withdraw capital from, what I  
03:02:05 20 recall, we were withdrawing capital from Bayou and  
03:02:09 21 submitting a redemption in February of, I think it  
03:02:11 22 was 2005, for several reasons.

03:02:14 23 The first reason that I recall was  
03:02:15 24 that the fund manager, Mr. Israel, had told me and  
03:02:24 25 our group that he intended to raise more assets and



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03:02:29 1 shift strategies. Style drift and asset management  
03:02:34 2 growth were two of the issues that we monitored  
03:02:37 3 closely.

03:02:38 4 Second set of issues had to do  
03:02:40 5 with -- so the first issue was AUM growth had gone  
03:02:44 6 from 200 million to 500 million. And told us of his  
03:02:47 7 intention to manage over a billion. That was a  
03:02:49 8 yellow flag for us.

03:02:51 9 The second issue was that he had been  
03:02:54 10 successful in trading short-term equities, small cap  
03:02:59 11 equities, and informed us that he intended to  
03:03:02 12 broaden that strategy to include commodities, and  
03:03:07 13 that was also a yellow flag. A style drift.

03:03:11 14 And then the third were a set of  
03:03:14 15 operational issues that our chief financial officer  
03:03:17 16 raised, and those had to do with issues of back-  
03:03:21 17 office administration and the strength of the back-  
03:03:25 18 office team, and as well as the fact that he had a  
03:03:30 19 broker-dealer and was an investment manager himself.  
03:03:35 20 That became one of our issues that we raised.

03:03:44 21 Q. Okay. And eventually it was  
03:03:45 22 discovered that the Bayou fund was a fraud, right?

03:03:48 23 A. I believe it was six to nine months  
03:03:51 24 after we redeemed.

03:03:52 25 Q. Did that experience cause you to

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03:03:54 1 change your due diligence practices in any way?

03:03:56 2 A. Yes.

03:03:57 3 Q. What did you do in response to Bayou,  
03:04:00 4 with respect to due diligence?

03:04:02 5 A. Yes. The issues that I just  
03:04:03 6 identified, we stuck with those issues. That is,  
03:04:07 7 asset under management growth, style drift. But the  
03:04:10 8 third issue, the operational due diligence issues,  
03:04:13 9 were elevated to the point of giving the operational  
03:04:19 10 team the ability to veto an investment if they saw  
03:04:24 11 an issue that they thought was of concern.

03:04:28 12 Q. Now, was the broker-dealer --

03:04:31 13 A. Broker-dealer, any issues about back-  
03:04:33 14 office staff, operational strength and the like.  
03:04:38 15 Still a yellow flag, but a flag that we would look  
03:04:41 16 at very closely. Because a number of other managers  
03:04:44 17 had that issue as well.

03:04:46 18 Q. Okay. Now, just so I have a complete  
03:04:49 19 understanding of -- well, not a complete  
03:04:51 20 understanding, but a good enough understanding of  
03:04:54 21 Sterling Stamos' due diligence practices and the  
03:04:57 22 evolution, you referenced investment due diligence,  
03:05:02 23 operational. Is there a third component?

03:05:05 24 A. Yes.

03:05:05 25 Q. What is that component?