

Exhibit 2

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,	Rule 2004
v.	Examination of:
BERNARD L. MADOFF INVESTMENT SECURITIES, LLC,	ARTHUR FRIEDMAN
Defendant.	(Volume I)

-----x

In Re:

BERNARD L. MADOFF,
Debtor.

-----x

TRANSCRIPT of testimony as taken by and before
NANCY C. BENDISH, Certified Court Reporter, RMR, CRR
and Notary Public of the States of New York and New
Jersey, at the offices of Baker & Hostetler, 45
Rockefeller Plaza, New York, New York on Tuesday,
June 22, 2010, commencing at 10:11 a.m.

BENDISH REPORTING, INC.
Litigation Support Services
877.404.2193
www.bendish.com

28			30				
1	A.	Mr. Wilpon is Mr. Katz's	10:40:10	1	A.	Sure.	10:43:28
2		brother-in-law. He's married to -- Mr. Katz is	10:40:13	2	Q.	You're married?	10:43:28
3		married to Mr. Wilpon's sister, and I met Mr. Wilpon	10:40:15	3	A.	Yes.	10:43:29
4		through Mr. Katz.	10:40:21	4	Q.	And your wife's name is?	10:43:29
5	Q.	What accounting firm was that that	10:40:24	5	A.	Ruth.	10:43:32
6		you and Mr. Katz were working at?	10:40:26	6	Q.	How long have you been married to	10:43:32
7	A.	SD Leidesdorf. It's not in existence	10:40:29	7	Ruth?		10:43:34
8		anymore.	10:40:34	8	A.	50, it will be 55 years in September.	10:43:36
9	Q.	Not one of the Big Four, huh?	10:40:34	9	Q.	Congratulations.	10:43:39
10	A.	It was in the Big Ten at the time.	10:40:38	10	A.	Thank you.	10:43:41
11		It was bought by Arthur Young and it progressed,	10:40:40	11	Q.	Do you have any children?	10:43:42
12		kept getting swallowed up or enlarged, I should say.	10:40:43	12	A.	Two.	10:43:43
13	Q.	In what, approximately what year did	10:40:47	13	Q.	And what are their names?	10:43:44
14		you meet Mr. Katz?	10:40:48	14	A.	David, who's 46, and Lauren, who is	10:43:45
15	A.	Let's see. 25, 35. I guess about 40	10:40:56	15	44. It's amazing. It's amazing just to say that.		10:43:50
16		years, '70 -- in the '60s.	10:41:08	16	Q.	Mine are only in their -- my oldest	10:43:57
17	Q.	So, tell me about your first -- what	10:41:15	17		are 19 and I can't even believe that.	10:44:00
18		was your first job with the Sterling group of	10:41:22	18	A.	Next year they'll be 46 and 44.	10:44:03
19		companies?	10:41:25	19	Q.	That's how that works.	10:44:07
20	A.	I don't recall what my first job was.	10:41:36	20	A.	Yeah.	10:44:09
21		I did a myriad of different things, tax work,	10:41:37	21	Q.	Are they involved, either of your	10:44:09
22		investments, accounting work.	10:41:44	22		children involved in the Sterling business?	10:44:11
23	Q.	Did you have a title when you first	10:41:45	23	A.	No.	10:44:15
24		started?	10:41:52	24	Q.	Does your son work?	10:44:16
25	A.	I was a partner. I was a partner	10:41:52	25	A.	Beg your pardon?	10:44:19
29			31				
1		immediately.	10:41:54	1	Q.	Do they work?	10:44:21
2	Q.	And who were the other partners at	10:41:55	2	A.	My daughter has a part-time job and	10:44:24
3		that time?	10:41:59	3		my son has a computer business, primarily repairing	10:44:27
4	A.	Mr. Katz and Mr. Wilpon. Mr. Katz's	10:42:00	4		programs, anything to do with computers.	10:44:34
5		brother, Mr. Wilpon's brother.	10:42:03	5	Q.	Let's kind of shift gears a little	10:44:37
6	Q.	Give me their names.	10:42:07	6		bit. Well, I've got one other background question	10:44:42
7	A.	Oh, I'm sorry. Michael Katz, Richard	10:42:09	7		for you, first, before we do that.	10:44:46
8		Wilpon. There was Leonard Schreier,	10:42:13	8		Did you -- up to that point, I'm	10:44:49
9		S-c-h-r-e-i-e-r, who is deceased now. There was	10:42:25	9		roughly in 1986 now, as you're starting with	10:44:51
10		Lester Osterman or Tom -- T. Lester Osterman. There	10:42:32	10		Sterling, had you had -- did you trade securities	10:44:55
11		was -- no. Well, at that time, that was it at the	10:42:45	11		for your own purposes?	10:45:00
12		time. But other partners.	10:42:51	12	A.	Yes.	10:45:03
13	Q.	Other partners joined later?	10:42:53	13	Q.	Tell me about your -- what you were	10:45:03
14	A.	Yeah. Jeff Wilpon came I think at	10:42:56	14		doing at that point in time, or up to that point in	10:45:08
15		the same time I did, Jeff Wilpon, who is	10:42:59	15		time.	10:45:10
16		Mr. Wilpon's, Fred Wilpon's son, Jeff. And not too	10:43:02	16	A.	I was an investor, I was successful.	10:45:15
17		far after that David Katz, who is Mr. Katz's son,	10:43:07	17		You know, I did well. The market went through a	10:45:21
18		joined the firm.	10:43:11	18		long period when it was a bull market, and I got my	10:45:27
19	Q.	And we're going to go over a list of	10:43:15	19		share of profits. And I would say I was a pretty	10:45:30
20		the partners in a little bit. Are you still a	10:43:17	20		astute investor.	10:45:43
21		partner today?	10:43:19	21	Q.	How much, just in round numbers, to	10:45:44
22	A.	Yes.	10:43:20	22		the extent you can remember, how much money did you	10:45:47
23	Q.	We're going to talk more about the	10:43:22	23		have in the market?	10:45:49
24		partners in a little bit. Let me just get some more	10:43:23	24	A.	Did I have at that time?	10:45:53
25		background on you.	10:43:27	25	Q.	Yeah, in the mid-'80s.	10:45:54

		44			46
1	American Property's real estate.	11:03:12	1	been an exception where one partner got a call from	11:06:17
2	A. Part of real estate, right. Owned	11:03:15	2	somebody and said, you've got to buy this stock, and	11:06:21
3	real estate, Sterling American Property. A separate	11:03:18	3	he did so on a relatively small basis, that's...	11:06:24
4	segment was the baseball, which was the New York	11:03:24	4	Q. That could have happened?	11:06:30
5	Mets and the Brooklyn Cyclones.	11:03:31	5	A. That could have happened. But for	11:06:31
6	Q. Okay.	11:03:40	6	the most part, as you termed it, that's what did	11:06:34
7	A. Separate businesses, separate	11:03:41	7	happen.	11:06:37
8	entities. We always considered our investments as	11:03:42	8	Q. And that's true for yourself as well?	11:06:38
9	being a separate segment of the Sterling broad	11:03:55	9	A. Yes.	11:06:40
10	picture.	11:04:00	10	Q. Did you continue to have a	11:06:40
11	Q. Okay. And by investments you'd be	11:04:00	11	relationship with a brokerage firm other than	11:06:44
12	including in there the investments with Bernie	11:04:02	12	Bernard Madoff, Bernie Madoff?	11:06:48
13	Madoff?	11:04:05	13	A. Yes.	11:06:52
14	A. Yes.	11:04:06	14	Q. Up until what point in time?	11:06:54
15	Q. Describe to me the investment side of	11:04:06	15	A. One account still exists as of today.	11:07:05
16	the business.	11:04:09	16	Q. So, I think you said Merrill Lynch,	11:07:07
17	A. I think, first of all, there were, to	11:04:17	17	right?	11:07:09
18	a very limited extent, investments that each partner	11:04:19	18	A. Well, it's a different firm now. No,	11:07:10
19	might have had when we first -- before '86, I	11:04:24	19	I moved to a different firm.	11:07:14
20	presume. After that, the only other investments	11:04:30	20	Q. So you always, at every period in	11:07:15
21	that anyone had, to my knowledge, were IRA accounts	11:04:37	21	time, you always had some investment that was other	11:07:18
22	where they might have opened an IRA with a broker,	11:04:40	22	than through Bernie Madoff?	11:07:21
23	usually.	11:04:48	23	A. Like play money.	11:07:27
24	Q. I didn't follow that. Could you	11:04:50	24	Q. Okay. I think you've outlined three	11:07:29
25	repeat that? Prior to '86 some of the partners had	11:04:52	25	different groups of business within the Sterling	11:07:33
		45			47
1	investments with Madoff individually, is that what	11:04:57	1	organization. We've got the real estate, we've got	11:07:37
2	you said?	11:05:00	2	the baseball, the real estate had two parts, the 100	11:07:40
3	A. No, no, no.	11:05:00	3	percent owned and the Sterling American	11:07:44
4	Q. Oh, I'm sorry. That's why I didn't	11:05:01	4	Properties --	11:07:47
5	follow you.	11:05:03	5	A. Right.	11:07:48
6	A. Whatever investments they had, if	11:05:04	6	Q. And you had the baseball and then	11:07:48
7	they had investments in equities or anything other	11:05:06	7	you've have the investments as a separate business	11:07:51
8	than an IRA -- first of all, several partners had	11:05:08	8	group, if you will. Is there any other, at this	11:07:53
9	IRA accounts. Beyond that if they had a separate	11:05:13	9	high level that we're looking at Sterling, are there	11:07:58
10	brokerage account it could have been with any number	11:05:17	10	any other groups of business that you would	11:08:02
11	of brokers. I myself had an account with Merrill	11:05:20	11	articulate?	11:08:05
12	Lynch. What I am saying is, once we started to	11:05:24	12	A. There were other investments, some	11:08:08
13	invest with Bernie Madoff, I can't think of any	11:05:32	13	that started, for example American Securities, we	11:08:12
14	partners who at that point or from that point on	11:05:39	14	invested money with American Securities, who	11:08:16
15	opened another brokerage account with anybody else.	11:05:42	15	primarily invested in other companies. That has	11:08:19
16	Q. Okay. So, if I could just rephrase	11:05:45	16	continued on to today. Just like Sterling American	11:08:26
17	that, the short version of that is that after a	11:05:48	17	Property, there have been American Securities 1, 2,	11:08:30
18	certain point in time, either '86 or some date close	11:05:54	18	3, 4 and they keep coming out with new and we --	11:08:33
19	to that, you're telling me that the individual	11:05:59	19	very successful and we make investments with them.	11:08:39
20	partners of the Sterling Group, to the extent they	11:06:02	20	Then there have been a myriad of	11:08:43
21	invested money personally, they did it all with	11:06:07	21	other investment opportunities through the years	11:08:46
22	Mr. Madoff?	11:06:10	22	that have come and gone.	11:08:52
23	MS. SESHENS: Objection to the form.	11:06:10	23	Q. Such as? Can you give me an example?	11:08:59
24	You can answer. You can answer. Go ahead.	11:06:11	24	A. Such as somebody vessels. We	11:09:04
25	A. For the most part. Might there have	11:06:15	25	invested at one point, we became -- not enamored,	11:09:08

		72			74
1	grouping for the Sterling entities as the	11:57:51	1	have our Bates stamp number on it, but there is a	12:02:18
2	investments. Under that you broke out I think, at	11:57:55	2	Bates stamp underneath it that is not --	12:02:20
3	least in my mind, kind of Madoff and then other	11:57:58	3	MR. LUCCHESI: Correct.	12:02:20
4	investments. So, can you tell me, maybe this is a	11:58:03	4	MS. SESHENS: -- one that we produced	12:02:22
5	good time, what were your responsibilities with	11:58:07	5	the document with.	12:02:23
6	respect to the investments being made by Sterling	11:58:09	6	MR. LUCCHESI: Correct. The larger	12:02:24
7	partners or Sterling entities with Bernard Madoff?	11:58:12	7	Bates stamp number, we have our own indexing system	12:02:25
8	A. With regard to Bernard Madoff?	11:58:18	8	for all the records that we're obtaining.	12:02:29
9	Q. Yes.	11:58:19	9	MS. SESHENS: Okay.	12:02:31
10	A. As I said, I was the liaison with the	11:58:24	10	MR. LUCCHESI: And that we have	12:02:31
11	Madoff firm. Any dealings with the investment in	11:58:29	11	possession of.	12:02:31
12	Madoff was done through me. That was by design, and	11:58:38	12	MS. SESHENS: So we'll see these on	12:02:31
13	so that whenever anybody wanted to invest money in	11:58:51	13	all the documents or the vast majority of them?	12:02:33
14	Madoff, they would send me the check, or -- it	11:58:55	14	MR. LUCCHESI: Yes. You will,	12:02:36
15	usually was in the form of a check, and I would	11:59:05	15	hopefully on all of them, you will see our own	12:02:37
16	forward it on to Madoff. And vice versa, if they	11:59:09	16	control number.	12:02:40
17	wanted to withdraw money, they would notify me,	11:59:12	17	MS. SESHENS: Okay.	12:02:41
18	either by email or letter or telephone what they	11:59:15	18	MR. LUCCHESI: And I'll tell you,	12:02:42
19	wanted to withdraw, from what account, when, if	11:59:21	19	Dana, some of your documents, they were produced	12:02:43
20	there was an urgency, and I would, again, transmit	11:59:27	20	electronically. It wasn't always clear why things	12:02:45
21	that information to Madoff.	11:59:34	21	were grouped together in certain ways, so you're	12:02:49
22	So, in every sense I was the liaison.	11:59:39	22	going to see some other documents during the course	12:02:52
23	Q. You said that was by design. Why was	11:59:46	23	of the day that we view them, for whatever --	12:02:54
24	that the design?	11:59:49	24	electronically they were like one document even	12:02:58
25	A. From, to my recollection, from day	11:59:56	25	though they might be -- they might appear to be	12:03:02
		73			75
1	one Mr. Madoff indicated that he didn't want -- he	12:00:00	1	unrelated.	12:03:03
2	didn't know how it would evolve and how many people	12:00:06	2	MS. SESHENS: Okay.	12:03:04
3	would be investors, and he didn't want to receive 50	12:00:09	3	MR. LUCCHESI: So we tried to keep	12:03:05
4	calls or whatever the number of investors were. He	12:00:14	4	things together except where it was clear that they	12:03:07
5	wanted to deal with as few people as possible, the	12:00:17	5	weren't related. So it will come up.	12:03:10
6	ideal being one. And we accommodated that, and	12:00:23	6	MS. SESHENS: We'll deal with those	12:03:14
7	that's how it evolved.	12:00:32	7	as they come up. Okay.	12:03:18
8	Q. Is that how business was done from	12:00:33	8	BY MR. LUCCHESI:	12:04:14
9	1986 until December of 2008?	12:00:36	9	A. Um-hum.	12:04:14
10	A. Yes.	12:00:39	10	Q. Have you had a chance to just look	12:04:15
11	(Exhibit AF-1 marked for	12:01:22	11	through Exhibit 1?	12:04:17
12	identification.)	12:01:26	12	A. Yes, I have.	12:04:18
13	Q. Mr. Friedman, I'm going to hand you	12:01:31	13	Q. I notice -- this appears to be an	12:04:18
14	what we've marked as Exhibit 1. I guess we're	12:01:34	14	organizational chart.	12:04:21
15	calling your exhibits AF and then a number, so AF-1.	12:01:38	15	A. Right.	12:04:22
16	A. Okay.	12:01:43	16	Q. Have you seen this document before or	12:04:22
17	Q. If you could just take a look at	12:01:50	17	some variation of this document?	12:04:24
18	that, I will tell you that this was produced by	12:01:52	18	A. A variation.	12:04:25
19	Sterling in response to some of our, one of our	12:01:58	19	Q. Do you know who prepared this?	12:04:27
20	discovery requests. Can you identify that document?	12:02:04	20	A. No, I don't.	12:04:31
21	You can leaf through it. It's multiple pages.	12:02:09	21	Q. Did you have any role in preparing	12:04:32
22	MS. SESHENS: Can I ask you a	12:02:13	22	this document or maintaining it?	12:04:34
23	question just before you do?	12:02:14	23	A. No.	12:04:37
24	MR. LUCCHESI: Yes.	12:02:15	24	Q. In looking through it, some of, at	12:04:41
25	MS. SESHENS: I see it is -- does	12:02:16	25	the bottom left-hand corner of some of the pages,	12:04:44

124			126		
1	A. I recall in the very early stages	02:01:34	1	Q. Sure.	02:05:22
2	actually tracking market prices. In other words,	02:01:40	2	A. -- I don't know exactly. But I would	02:05:23
3	when we first were invested, we did not invest in	02:01:46	3	say 10 to 15 times, perhaps.	02:05:30
4	index puts and calls. We invested in individual, if	02:01:52	4	Q. So, the other months, other than the	02:05:35
5	we bought seven individual stocks, we bought the	02:02:01	5	10 to 15, you generally understand or recall that	02:05:38
6	puts and sold the calls on each individual security.	02:02:06	6	those months were, there were gains reported by	02:05:42
7	And I can remember, and I don't remember exactly for	02:02:12	7	Madoff overall?	02:05:46
8	how long I continued that, but if the statement came	02:02:16	8	A. Gains were virtually flat.	02:05:48
9	out that we bought this list -- and I'm just using	02:02:20	9	Q. Going back to your -- you mentioned	02:05:53
10	seven as an example, it wasn't necessarily seven --	02:02:26	10	the puts and the calls on individual stocks, and	02:05:57
11	at specific dollar amounts and the puts and calls at	02:02:30	11	you're using seven in your hypothetical, seven	02:06:00
12	certain specific amounts, I actually went to the	02:02:37	12	stocks where puts and calls were bought as opposed	02:06:03
13	newspapers and tracked to see how that fit into	02:02:40	13	to buying an index put.	02:06:05
14	the -- first of all, did it fit into a range, did it	02:02:48	14	A. Right.	02:06:07
15	trade at that value, and was it the high, the low,	02:02:53	15	Q. I just want to understand, you were	02:06:09
16	the middle, the closing price of the range for the	02:02:57	16	looking at what Madoff was actually doing in your	02:06:12
17	day. That was one thing I did.	02:03:02	17	account, correct?	02:06:16
18	I can remember other exercises I went	02:03:19	18	A. Right.	02:06:18
19	through. They weren't necessarily due diligence,	02:03:22	19	Q. Did you at any time -- I'll ask you	02:06:18
20	but just from a tracking standpoint, I can remember	02:03:27	20	first -- did you at any time direct the investment,	02:06:21
21	trying to project a month ahead of time what, based	02:03:33	21	other than giving the money to Madoff, did you	02:06:25
22	upon the prices, what the maximum gain and the	02:03:42	22	direct Madoff in what he did with the money?	02:06:28
23	maximum loss might be under the circumstances. And	02:03:46	23	A. No.	02:06:32
24	then going back and seeing exactly how we did and	02:03:52	24	Q. So at all times Madoff controlled how	02:06:32
25	how that reality measured up to my projections.	02:03:58	25	he invested?	02:06:35
125			127		
1	That wasn't necessarily due diligence.	02:04:04	1	A. He had discretion, yes.	02:06:39
2	Q. How did your reality match up? Do	02:04:06	2	Q. So these puts and calls that you were	02:06:41
3	you have a general recollection?	02:04:10	3	talking about in your hypothetical, in your example,	02:06:45
4	A. To the best of my recollection, it	02:04:12	4	you had seven different stocks and there was a put	02:06:48
5	was -- first of all, it did fall within -- again,	02:04:16	5	and call purchased for each particular stock,	02:06:50
6	what I projected was the maximum that we could gain	02:04:21	6	correct?	02:06:53
7	and the maximum we could loss -- lose. The fact	02:04:25	7	A. There was a put purchased and a call	02:06:54
8	that there was puts and calls, there was a maximum	02:04:29	8	sold.	02:06:56
9	on both sides. And in all cases it would fall	02:04:32	9	Q. I'm sorry, I'm using the wrong	02:06:57
10	between that. It wasn't outside that range.	02:04:38	10	terminology, you're absolutely right. But it was	02:06:58
11	Q. Let me just ask you this, kind of out	02:04:44	11	done for each stock?	02:07:02
12	of order here, but do you recall any particular,	02:04:47	12	A. Yes.	02:07:03
13	let's take month, any month in which Madoff reported	02:04:51	13	Q. And that was what Madoff did?	02:07:03
14	a loss on the investments that he purportedly made	02:04:56	14	A. Yes.	02:07:06
15	on behalf of Sterling?	02:05:01	15	Q. Now, when you were looking at the	02:07:06
16	A. Yes.	02:05:03	16	index, buying or trading in puts and calls, on the	02:07:08
17	Q. How many times do you recall there	02:05:03	17	index, was that something you were contemplating	02:07:13
18	being a loss?	02:05:05	18	doing separately on your own or was that something	02:07:17
19	A. How many times throughout the	02:05:07	19	you were contemplating maybe Madoff should be doing?	02:07:21
20	entire --	02:05:09	20	MS. SESHENS: Objection to form.	02:07:25
21	Q. Yes.	02:05:09	21	Q. Do you understand the question?	02:07:27
22	A. -- 23-year --	02:05:11	22	A. Yes. We weren't the ones to suggest	02:07:29
23	Q. Yes.	02:05:15	23	this change from individual options to an index	02:07:35
24	A. This would be speculation because I	02:05:16	24	option. He decided and advised us that he found it	02:07:39
25	don't, without referring to records --	02:05:19	25	would be better, it would be simpler and it would be	02:07:46

		140			142
1	some point in time, did some checking, you said you	02:30:22	1	A. Not that I can recall, no.	02:33:12
2	looked in the newspaper after you got your statement	02:30:28	2	Q. If you had noticed a price out of the	02:33:13
3	from Mr. Madoff and checked the prices at which his	02:30:30	3	range on a particular stock, would -- what would	02:33:17
4	trades, his trades had been effectuated. Do you	02:30:35	4	your reaction have been?	02:33:23
5	recall telling me that?	02:30:38	5	MS. SESHENS: Objection.	02:33:24
6	A. Yes.	02:30:39	6	Q. What would you have done?	02:33:25
7	Q. Do you recall when you did that?	02:30:41	7	MS. SESHENS: Objection.	02:33:26
8	Over what periods of time you checked the prices?	02:30:46	8	A. I would have brought it to the	02:33:29
9	A. I don't have an exact recollection.	02:30:53	9	attention of the partners and looked for guidance as	02:33:30
10	You mean how long after we got the statement or for	02:30:56	10	to what we would do next.	02:33:35
11	how long I continued to do that?	02:31:01	11	Q. Would you have -- would it have been	02:33:37
12	Q. How long -- it was the latter one,	02:31:02	12	within your range of authority, within the scope of	02:33:40
13	how long you continued to do that.	02:31:06	13	your authority if you'd notice such a discrepancy to	02:33:42
14	A. I don't know exactly, but it wasn't	02:31:10	14	call Madoff directly and ask him about that?	02:33:47
15	too long. I mean, it was a lot of work and it	02:31:11	15	MS. SESHENS: Same objection.	02:33:50
16	didn't lead to anything that I would say something's	02:31:15	16	A. I wouldn't have done that without	02:33:52
17	wrong.	02:31:20	17	speaking to the partner.	02:33:55
18	Q. Is that the purpose for which you	02:31:20	18	Q. You wouldn't have called Madoff	02:33:57
19	were doing the checking?	02:31:22	19	directly?	02:33:59
20	A. Just -- well, I think it had multi-	02:31:24	20	A. No.	02:34:00
21	purpose. One was just to learn more about the whole	02:31:26	21	Q. Would you have called anyone at	02:34:00
22	procedure and work through it. At some point I even	02:31:29	22	Madoff's shop directly without speaking to the	02:34:01
23	tried to do the strategy myself to see how I would	02:31:39	23	partners for something like that?	02:34:04
24	make out if I did it. But the purpose was just to	02:31:42	24	A. I don't believe so. I would speak to	02:34:07
25	learn to track it, to see how it worked and at the	02:31:55	25	the partners.	02:34:09
		141			143
1	same time if anything turned up that was not -- that	02:32:04	1	Q. Why? Why is that your reaction?	02:34:10
2	didn't look right.	02:32:09	2	A. They might, perhaps Mr. Katz or	02:34:16
3	Q. I take it nothing turned up that	02:32:10	3	Mr. Wilpon might have been the one to consult with	02:34:18
4	didn't look right when you checked the prices?	02:32:12	4	Mr. Madoff directly, question him. Maybe I was	02:34:23
5	A. That's correct.	02:32:15	5	doing something wrong that might be detected if I	02:34:28
6	Q. Did you notice if Bernie was	02:32:15	6	spoke to them and said this is my findings, they	02:34:32
7	consistently selling at the high or selling in the	02:32:20	7	might point out that, well, you did something wrong	02:34:36
8	middle or selling at the low?	02:32:22	8	when you checked it. So I just would go to them	02:34:41
9	A. There was no consistency. It was	02:32:25	9	first.	02:34:47
10	within the range, whether it was high or low. It	02:32:27	10	Q. So -- you may have answered this a	02:34:48
11	was just in the range, but I didn't see any, that it	02:32:31	11	minute ago but I've lost it. Did you -- do you	02:34:50
12	traded right at the top, bottom or an average in	02:32:36	12	recall what period of time you were checking the	02:34:55
13	between.	02:32:39	13	prices of the trades that Madoff was making?	02:34:58
14	Q. Did you ever look at, when you sold	02:32:39	14	A. The answer is I don't recall but I	02:35:03
15	the stock during a particular month, did you ever	02:32:44	15	know that I wouldn't have -- it wasn't all that	02:35:06
16	look at how that stock traded across the whole month	02:32:47	16	long, because it was, again, very time-consuming and	02:35:08
17	to see if he sold it at the top consistently, the	02:32:50	17	not giving any, deriving any benefit.	02:35:15
18	highest price for the month?	02:32:53	18	Q. So, when you say it wasn't all that	02:35:17
19	A. No, I don't remember doing that. I	02:32:56	19	long, when do you think you started? Did you start	02:35:19
20	just remember when he sold it, on the day that he	02:32:59	20	right in January of '86, when you first got there?	02:35:23
21	sold it, I looked at that day's transactions.	02:33:03	21	A. I don't recollect exactly, but it	02:35:27
22	Q. Just to see if it was in the range?	02:33:06	22	could have been. And it might have been just a	02:35:29
23	A. Yeah.	02:33:08	23	matter of months that I did that exercise.	02:35:37
24	Q. Did you ever notice prices that were	02:33:08	24	Q. You think it was limited to months as	02:35:40
25	not within the range, ever?	02:33:10	25	opposed to a year?	02:35:43

144			146				
1	A.	I really don't recollect exactly.	02:35:45	1	MS. SESHENS: Sorry. Go ahead.	02:39:23	
2	Q.	Did you check all of the trades for	02:35:50	2	A.	That was one major factor. It could	02:39:25
3		all of the accounts at that, whatever time period	02:35:52	3		also -- again, I'm doing it after the fact, just	02:39:29
4		you were doing it, or did you just pick one account?	02:35:55	4		using his information, that could change my result	02:39:32
5	A.	No, I checked -- no, not all of the	02:35:59	5		either way. I mean, if the next day or two days	02:39:38
6		accounts because everything was a mirror image.	02:36:02	6		later using his strategy the market -- I was able to	02:39:45
7	Q.	Fair enough.	02:36:05	7		make a better purchase than he did, then, you know,	02:39:49
8	A.	In other words, he would buy seven --	02:36:06	8		it could have gone either way.	02:39:53
9		if he bought seven securities, it would be seven	02:36:08	9	Q.	If Madoff wasn't charging a	02:39:59
10		securities in each account. So I only had to do one	02:36:11	10		commission, is that what you told me? Your	02:40:01
11		account. I wouldn't have done every other account.	02:36:14	11		understanding was he wasn't charging you a	02:40:04
12	Q.	But you would have done --	02:36:18	12		commission?	02:40:07
13	A.	I would have done every trade, yes.	02:36:19	13	A.	My understanding was that he was	02:40:09
14	Q.	So, you indicated that you attempted	02:36:24	14		making a market in some or all of these stocks and	02:40:18
15		to replicate Madoff's strategy. What did you do?	02:36:33	15		he was making money but he determined the price. If	02:40:26
16		Tell me.	02:36:40	16		he could buy it at one and sell it to us, in effect,	02:40:30
17	A.	Trying to recollect exactly what I	02:36:49	17		at one-and-1/16th, but the one-and-1/16th was	02:40:36
18		did.	02:36:53	18		certainly a fair price and certainly it traded	02:40:43
19		I would take the stocks that he	02:37:08	19		during the day well above one-and-1/16th -- these	02:40:46
20		purchased, and I believe what I did was to follow	02:37:11	20		are all examples, of course -- he was making a	02:40:51
21		the strategy. What I'd want to see is I wasn't	02:37:20	21		commission or a substitute for commission, the	02:40:56
22		testing what he did that he's giving us accurate	02:37:28	22		1/16th. But I would actually have to go and buy it	02:40:59
23		numbers, but if I utilize his strategy, let's say	02:37:31	23		at whatever price, one-and-1/16th, and then pay a	02:41:04
24		when I got the slips that said this is what he	02:37:34	24		commission on top of that.	02:41:08
25		bought, I would take that information and then try	02:37:38	25	Q.	If you bought it from someone other	02:41:10
145			147				
1		to enact it on my own account. Different	02:37:43	1		than Madoff?	02:41:12
2		quantities, didn't matter the quantity, but just to	02:37:50	2	A.	If I bought it from someone else,	02:41:13
3		take what to buy, but I would always be lagging	02:37:55	3		right.	02:41:15
4		behind him. Just to get a general idea of how I	02:38:01	4	Q.	Did you -- how did you come to that	02:41:16
5		would do, and I found that he did, I'm making up,	02:38:05	5		understanding that he was, I think you said, making	02:41:17
6		say 15 percent. I did more like six percent. I	02:38:11	6		a market in these stocks and he was able to buy it	02:41:19
7		made a profit. I determined in my own mind that the	02:38:15	7		at one price and then sell it to you at a different	02:41:22
8		strategy was good, it worked, but not to the extent	02:38:19	8		price? How did you come to that understanding?	02:41:25
9		that it worked for him.	02:38:26	9	A.	I think his whole operation, when I	02:41:33
10		One of the major reasons was the	02:38:29	10		was told or learned about who he was and how he	02:41:37
11		commission. When I did the strategy I determined	02:38:31	11		operated and what he was behind, what business he	02:41:41
12		somehow what the commission would be, what I'd have	02:38:40	12		was in or businesses, this was indicated that he,	02:41:44
13		to pay if I did this on my own. Whereas he had	02:38:43	13		one of his businesses was using the computer and	02:41:51
14		little or no commission, and that made a big	02:38:49	14		making a market in stocks.	02:41:54
15		difference when you're dealing with, just looking to	02:38:52	15	Q.	And this is what you learned from	02:41:56
16		try to make one percent a month, that made a	02:38:55	16		someone other than Mr. Madoff? Or did you also	02:42:01
17		difference.	02:38:59	17		learn that from Bernie Madoff himself?	02:42:04
18	Q.	So your understanding was that the	02:39:00	18	A.	No, I don't remember learning it	02:42:06
19		difference between the -- I know you made these	02:39:05	19		directly from him, no.	02:42:09
20		numbers up, but your six percent return that you	02:39:08	20	Q.	Did you ever discuss with Madoff his	02:42:10
21		were able to accomplish and his 14 or 16, whatever	02:39:11	21		investment strategy?	02:42:13
22		you said, was primarily driven by the absence of	02:39:15	22	A.	I don't remember ever discussing it	02:42:18
23		commission costs?	02:39:20	23		with him. I mean, it was apparent what his strategy	02:42:19
24		MS. SESHENS: Objection to the form.	02:39:21	24		was. I could see, even after the fact, a monthly	02:42:26
25	A.	That was one of --	02:39:22	25		statement, looking at a couple of months, I could	02:42:30

		148			150
1	see exactly what he was doing, aside from whoever	02:42:33	1	MS. SESHENS: You mean at later	02:46:04
2	did explain to me within Sterling.	02:42:36	2	periods of time?	02:46:06
3	Q. So tell me what you understood	02:42:39	3	MR. LUCCHESI: At any period of time.	02:46:07
4	Madoff's strategy to be.	02:42:44	4	A. I don't remember ever questioning it.	02:46:13
5	A. Initially he would buy some stocks,	02:42:48	5	I know from the beginning of time we never, we never	02:46:15
6	all in the S & P, top 50 of the S & P 100. He would	02:42:52	6	got it electronically.	02:46:18
7	buy puts on each of these individual stocks at the	02:43:02	7	Q. Did you deal, in your work with	02:46:20
8	same time and sell calls at the same time. And when	02:43:05	8	Sterling or individually, did you dealing with other	02:46:22
9	he chose to get out of the position of the	02:43:13	9	brokerage firms?	02:46:26
10	securities, he would unwind the options. The puts	02:43:15	10	A. Yes.	02:46:27
11	he would buy back, unless they expired worthless.	02:43:23	11	Q. That traded equities on behalf of	02:46:28
12	And the calls he would sell -- I mean, sorry, he	02:43:30	12	Sterling entities or Sterling partners?	02:46:32
13	would buy. And it was as simple as that.	02:43:36	13	A. Sterling partners, certainly my own	02:46:36
14	Q. What was your understanding about	02:43:45	14	personal account, yes.	02:46:46
15	when Madoff would be -- strike that.	02:43:46	15	Q. Okay. Those other brokers, did you	02:46:48
16	Did you have an understanding that	02:43:50	16	receive electronic confirmation?	02:46:51
17	sometimes Madoff would be in the market and	02:43:52	17	A. No.	02:46:54
18	sometimes he'd be out of the market? What was your	02:43:54	18	Q. Did you get your, access to your	02:46:55
19	understanding?	02:43:57	19	account information electronically?	02:46:58
20	A. The word that we used, in the market	02:43:59	20	A. No, I don't remember getting it	02:47:05
21	meant that the strategy that I just outlined, he was	02:44:02	21	electronically, no.	02:47:07
22	in stocks and options. Out of the market, when he	02:44:06	22	Q. Going back to the confirm slips that	02:47:09
23	decided to sell the securities and unwind the	02:44:11	23	you indicated you'd get, they'd come in the mail, as	02:47:12
24	options, then the funds came out and they went into	02:44:14	24	you indicated I think several days, a few days after	02:47:17
25	treasuries. When he was in treasuries he was,	02:44:19	25	a trade, either a buy or a sell had taken place?	02:47:20
		149			151
1	quote, out of the market.	02:44:22	1	A. Yeah, it could be a couple of days,	02:47:25
2	Q. Was there a time that -- well, how	02:44:25	2	could be a day or two.	02:47:27
3	did you know, or did you, at any one point in the	02:44:27	3	Q. What would you do with those -- first	02:47:30
4	month, when Madoff was in the market as you've	02:44:32	4	of all, who would receive those at Sterling? Would	02:47:33
5	described it, versus out of the market?	02:44:34	5	those come directly to you?	02:47:36
6	A. How did we know? I would call my	02:44:37	6	A. Yes.	02:47:37
7	contact, who was Frank DiPascali, although at times	02:44:42	7	Q. Or to someone who worked for you?	02:47:37
8	it may have been somebody else, but I always	02:44:49	8	A. Well, usually my assistant.	02:47:41
9	remember speaking to him, certainly most of the	02:44:51	9	Q. I noticed on the organization chart	02:47:43
10	years. And just asking the question, if the first	02:44:56	10	you have your assistant underneath you, which at one	02:47:46
11	of the month, if the last statement showed that he	02:45:00	11	point was Cynthia Bernstein. Did you have other	02:47:50
12	was, for example, out of the market, I would ask him	02:45:04	12	people that worked directly for you that were direct	02:47:53
13	whether or not he got into the market or did he	02:45:07	13	reports up to you or through Cynthia Bernstein to	02:47:57
14	intend to get into the market and, if so, when, if	02:45:14	14	you?	02:48:01
15	he knew. And vice versa, if he is in the market --	02:45:20	15	A. No.	02:48:01
16	usually, I mean, I would know myself a few days	02:45:26	16	Q. Or was she your only direct report?	02:48:01
17	after he took action, either going in or out by the	02:45:28	17	A. No, it was just my assistant and	02:48:04
18	confirmation slips we would receive. These would be	02:45:32	18	myself on this aspect of what I did.	02:48:06
19	received very shortly a day or two after the action	02:45:38	19	Q. Right. I'm just talking about this,	02:48:09
20	took place.	02:45:42	20	the Madoff --	02:48:12
21	Q. They were received by regular mail?	02:45:44	21	A. Yes.	02:48:13
22	A. Yes.	02:45:47	22	Q. -- aspect.	02:48:14
23	Q. Did you ever question why you weren't	02:45:51	23	A. Only the two of us.	02:48:17
24	receiving confirms, confirmation tickets	02:45:54	24	Q. What would be done -- what would you	02:48:26
25	electronically?	02:46:04	25	do with the confirm slips when you received them?	02:48:28

156			158		
1	timing was awful.	02:54:37	1	A. Yeah.	02:57:25
2	Q. Did you ever discuss with anybody or	02:54:38	2	Q. Do you think it was in the 1990s? I	02:57:25
3	did anybody discuss with you the notion that perhaps	02:54:41	3	mean, if you're able to tell me. If you're not,	02:57:27
4	Madoff might be trading on inside information?	02:54:45	4	you're not.	02:57:31
5	A. On inside information?	02:54:50	5	A. I really can't say. I don't know.	02:57:34
6	Q. Yes.	02:54:51	6	Q. Can you tell me if you did anything,	02:57:36
7	A. Nobody did. And again, there was no	02:54:56	7	took any action or made any further inquiry in	02:57:41
8	evidence that every time the market went up he --	02:54:59	8	response to this issue being raised about Mr. Madoff	02:57:44
9	I'd call him and he'd say, yeah, I got in yesterday	02:55:04	9	and front-running?	02:57:48
10	right before the market went up. That, you know, he	02:55:07	10	A. I don't think there was any specific	02:57:52
11	wasn't -- that didn't happen. I mean, it may have	02:55:10	11	accusation that he was front-running, doing anything	02:57:56
12	happened...	02:55:13	12	illegal. It may be in close proximity but not	02:58:00
13	Q. I understand, you answered that, but	02:55:14	13	front-running, is the fact that he had other	02:58:10
14	it really was a different question. Did anyone ever	02:55:18	14	operations, he knew -- he made a market in stocks,	02:58:14
15	raise with you a concern that maybe Madoff was	02:55:20	15	he had certain information and people have	02:58:18
16	trading on inside information?	02:55:23	16	information for various reasons and various methods.	02:58:20
17	A. I don't remember anybody ever raising	02:55:27	17	And that made him not do something illegal but	02:58:24
18	that view.	02:55:28	18	perhaps just gave him more of a knowledge about the	02:58:29
19	Q. Do you know what front-running is?	02:55:29	19	market, when it might go up, but not using,	02:58:33
20	A. I'm not 100 percent sure. I	02:55:36	20	necessarily, information illegally.	02:58:38
21	certainly have heard the term.	02:55:38	21	Q. To the extent you have any	02:58:43
22	Q. Have you heard the term, have you	02:55:40	22	understanding of front-running, is it your	02:58:48
23	heard the term in the context of someone wondering	02:55:43	23	understanding that front-running is illegal or	02:58:50
24	or questioning whether Madoff was engaged in	02:55:45	24	impermissible?	02:58:53
25	front-running?	02:55:48	25	A. It's my understanding, but obviously	02:59:00
157			159		
1	A. I've heard that, too, and I think I,	02:55:49	1	you can see that I'm not clear exactly what	02:59:02
2	at one time, knew what front-running was, but...	02:55:53	2	front-running is, but it's my understanding that	02:59:06
3	Q. What do you recall about having heard	02:55:56	3	front-running is illegal, but there's thin lines	02:59:09
4	Madoff and front-running being connected?	02:56:00	4	between what is front-running, in my own mind, what	02:59:17
5	A. That he took information and used it	02:56:14	5	is front-running and what is just having knowledge	02:59:24
6	illegally. He used it to his own benefit or to	02:56:24	6	of the stock market in various ways, not	02:59:28
7	benefit his clients.	02:56:29	7	necessarily -- something other than front-running.	02:59:33
8	Q. And what -- do you recall the context	02:56:31	8	Q. Do you recall if the concern about	02:59:39
9	in which you heard that? Who raised it?	02:56:33	9	Madoff and front-running was either voiced to you by	02:59:40
10	A. I don't really recall who raised it,	02:56:39	10	the Sterling partners or if you shared that	02:59:46
11	no.	02:56:41	11	information, if it wasn't voiced to you by them,	02:59:50
12	Q. I'm sorry?	02:56:41	12	with the Sterling, you shared it with the Sterling	02:59:54
13	A. I don't really recall who raised that	02:56:43	13	partners?	02:59:57
14	term or said this could be a possibility.	02:56:46	14	MS. SESHENS: Object to the form.	02:59:57
15	Q. Do you recall when that was raised?	02:56:49	15	A. I don't recall. I mean, I'm sure it	03:00:06
16	When you heard that?	02:56:51	16	would have had to be among the Sterling partners. I	03:00:08
17	A. Not really.	02:56:53	17	didn't discuss Madoff with -- I didn't discuss it	03:00:13
18	Q. Do you know if it was in the 1980s?	02:56:55	18	with him, with Frank DiPascali, but I can't say that	03:00:16
19	A. I don't recall hearing it in the	02:57:03	19	I have a definite recollection, because I don't.	03:00:27
20	1980s. I have no recollection of it. The term	02:57:05	20	Q. Did you -- do you have a recollection	03:00:30
21	has -- I heard it when I heard it. By whom, I don't	02:57:12	21	of whether -- and I just want a yes or no to this --	03:00:32
22	know.	02:57:16	22	whether you discussed the front-running issue	03:00:36
23	Q. Let me see if we can narrow it down.	02:57:16	23	related to Madoff with counsel at any point in time?	03:00:40
24	Obviously it was before 2008, December of 2008,	02:57:19	24	A. To my knowledge, I never discussed it	03:00:49
25	right?	02:57:24	25	with counsel.	03:00:51

164			166		
1	A. I recall a myriad of articles, some	03:22:22	1	Q. Did you have any exposure to any	03:26:10
2	questioning how he does it, and some lauding for	03:22:29	2	articles raising suspicions about Madoff before	03:26:14
3	being a genius. So, they ran the gamut from being	03:22:38	3	2000?	03:26:19
4	called suspicious or wondering how he's so	03:22:43	4	A. Again, as I said before, there seemed	03:26:22
5	consistent, but others saying it's amazing, he's	03:22:47	5	to be the articles that questioned how he did it	03:26:25
6	terrific, or it's no wonder so many people invest	03:22:57	6	with articles saying his strategy is great, it works	03:26:35
7	with him or want to invest with him, that he's	03:23:02	7	and look what a great man he is.	03:26:41
8	great.	03:23:08	8	There was always the other factors	03:26:45
9	Q. How did these articles come to your	03:23:08	9	besides the articles of knowing Madoff and the fact	03:26:47
10	attention?	03:23:11	10	that he was involved with NASDAQ, that he was the	03:26:54
11	A. Some articles were in the paper for	03:23:14	11	president of NASDAQ. I don't know when this	03:26:58
12	everybody to see, some articles were sent to me from	03:23:17	12	occurred, but I understood that he was on a short	03:27:04
13	partners, some from outside people that knew we were	03:23:22	13	list to be chairman of the SEC. There was many	03:27:08
14	invested in Madoff. So, it's various ways.	03:23:29	14	articles that, again, praised him and certainly this	03:27:14
15	Q. Were any of the articles the subject	03:23:35	15	was a lot of comfort. And then time itself gave us	03:27:23
16	of discussion among the partners?	03:23:37	16	a warm feeling about him and getting to know him and	03:27:31
17	A. Usually there was some kind of	03:23:48	17	his successes and his wealth. There was certainly	03:27:42
18	discussion, usually.	03:23:50	18	enough on that side of the ledger that gave us a	03:27:52
19	Q. Did any of the articles that	03:23:53	19	great deal of comfort to offset any negative	03:27:57
20	questioned Madoff or, I think you used the word	03:23:54	20	articles.	03:28:05
21	suspicions or suspicious of Madoff, did they cause	03:23:59	21	Q. Okay. But my question was do you	03:28:08
22	you on behalf of the partners or to your knowledge	03:24:07	22	recall seeing any articles before the year 2000 that	03:28:11
23	any of the other partners to do any investigation or	03:24:09	23	raised questions or suspicions about Madoff's	03:28:15
24	questioning of Mr. Madoff about his trading	03:24:13	24	trading activities?	03:28:18
25	strategy?	03:24:17	25	A. I've seen a number of articles. I	03:28:21
165			167		
1	A. There might have been, but it always	03:24:25	1	can't -- I'm sure some of them were before the year	03:28:23
2	seemed that every time there was a real, call it a	03:24:28	2	2000, but I can't point to any -- I probably did.	03:28:29
3	suspicion, where somebody questioned the	03:24:35	3	Q. Can you identify any steps that were	03:28:35
4	transparency or had some problem with Madoff, like	03:24:38	4	taken by you or anyone else on behalf of Sterling at	03:28:42
5	Markopolos, it always seemed to be an SEC	03:24:46	5	any point in time to investigate any aspect of	03:28:46
6	investigation, either an investigation was called	03:24:51	6	Madoff's investment strategy in response to anything	03:28:52
7	for and we said, well, we'll see what happens here.	03:24:54	7	that might have been in the news, calling into	03:28:56
8	Or it was just publicized that the SEC went in and	03:24:59	8	question or raising suspicion about Madoff's	03:28:59
9	gave him a clean bill of health.	03:25:05	9	investment strategy?	03:29:02
10	So, any time that we sort of sat on	03:25:08	10	A. The only thing that I could honestly	03:29:14
11	the tip of our chair and raised an eyebrow, the SEC	03:25:12	11	recollect is the suspicion that he's not	03:29:19
12	was always there to bring the comfort and say this	03:25:21	12	transparent, a common complaint. They don't know	03:29:29
13	man is great, he's perfect, no problem, and we went	03:25:24	13	how he does it, how does he get returns that are so	03:29:33
14	into relax mode.	03:25:31	14	consistent. Nothing that I could recall that was	03:29:36
15	Q. How many times are you aware that the	03:25:32	15	very specific that there was any wrongdoing.	03:29:49
16	SEC looked at or investigated Madoff?	03:25:34	16	Q. You talked about lack of transparency	03:30:21
17	A. In my own mind I thought there was	03:25:41	17	and consistency. I guess my question was directed	03:30:23
18	anywhere up to four times.	03:25:44	18	at what steps, if any, Sterling may have taken,	03:30:26
19	Q. When did those investigations occur,	03:25:45	19	through you or through anybody else, to look into or	03:30:33
20	in your mind?	03:25:47	20	to investigate Madoff's strategy in response to any	03:30:36
21	A. Between 2000 and 2006, in that	03:25:55	21	criticisms or suspicions that were raised by	03:30:40
22	general area.	03:25:58	22	articles that you may have come across?	03:30:44
23	Q. Are you aware of any SEC	03:25:59	23	MS. SESHENS: Objection to form.	03:30:47
24	investigations before 2000?	03:26:01	24	Q. Were there any? Can you think of any	03:30:52
25	A. No.	03:26:10	25	steps that you took?	03:30:54

168			170				
1	A.	I can't think of any.	03:30:56	1	A.	Black Monday, okay.	03:34:35
2		(Exhibit AF-4 marked for	03:31:14	2	Q.	Did -- do I understand this	03:34:42
3		identification.)	03:31:18	3		correctly, that Madoff -- you were reporting the	03:34:44
4	Q.	Mr. Friedman, I'm going to hand you	03:31:24	4		results of an investment that Madoff happened to	03:34:48
5		what we've marked as Exhibit AF-4 and it's a	03:31:26	5		make on Black Monday?	03:34:51
6		multi-page document. If you'd look first at the	03:31:32	6		MS. SESHENS: Objection to the form.	03:34:54
7		second page and then you can look at as much of the	03:31:36	7	Q.	Is that correct?	03:34:58
8		rest of the document as you wish, but I'm really	03:31:40	8	A.	Yes.	03:34:59
9		going to ask you, first of all, a question on the	03:31:43	9	Q.	So he made the investment on Black	03:34:59
10		second page.	03:31:46	10		Monday and he sold it five weeks later?	03:35:02
11		Have you had a chance to look at	03:32:51	11	A.	That's what the memo says, yeah.	03:35:07
12		that?	03:32:54	12	Q.	So he purchased securities at what	03:35:10
13	A.	There's a lot here.	03:32:55	13		was at that point, at least for the recent period,	03:35:14
14	Q.	Let's just look at the second page	03:32:56	14		the relevant period of time, the all-time low,	03:35:18
15		for a minute.	03:32:59	15		correct?	03:35:22
16	A.	Okay.	03:32:59	16		MS. SESHENS: Objection to the form.	03:35:22
17	Q.	Actually, I think there's less here	03:33:00	17	Q.	Correct?	03:35:24
18		than you might think, because I think two of the	03:33:03	18	A.	Yes.	03:35:25
19		pages are the same. I could be wrong, but I think	03:33:06	19	Q.	Did you have any discussions with the	03:35:26
20		the page that ends in control number, that ends in	03:33:10	20		partners at Sterling about the fact that Madoff was	03:35:33
21		69 and 70 -- well, they're similar. I guess they've	03:33:15	21		making the purchases of stocks on their behalf at	03:35:40
22		got different handwriting on them.	03:33:18	22		the low point of the market activity, the market	03:35:45
23	A.	Okay.	03:33:21	23		pricing?	03:35:50
24	Q.	But let's just focus on the memo for	03:33:21	24	A.	I don't have any recollection of him	03:35:53
25		a second.	03:33:24	25		doing this. I mean, I see, I'm not questioning that	03:35:56
169			171				
1	A.	Um-hum.	03:33:25	1		he did do it and that I did report it to the	03:36:00
2	Q.	First of all, that appears to be a	03:33:25	2		partners and we did make a profit, but I don't have	03:36:02
3		memo dated December 1, 1987 from you to all	03:33:28	3		a recollection of him saying to me or saying to all	03:36:06
4		executives. Is that correct?	03:33:34	4		the partners or to any particular partner on October	03:36:11
5	A.	Yes.	03:33:37	5		19th, this would be a good time to invest money.	03:36:16
6	Q.	And do you have a recollection of	03:33:38	6	Q.	Okay, but clearly on December 1st,	03:36:20
7		this memo?	03:33:41	7		1987 when you wrote this memo, you -- I'm going to	03:36:23
8	A.	Not really, no.	03:33:43	8		make this as a statement, you can agree or	03:36:29
9	Q.	Do you have a recollection of a	03:33:44	9		disagree -- you clearly knew that October 19th was	03:36:33
10		five-week investment made on October 19th, 1987	03:33:50	10		Black Monday?	03:36:36
11		yielding an annualized 30 percent profit?	03:33:54	11	A.	Correct.	03:36:38
12	A.	I don't. Seems like a good idea, but	03:33:59	12	Q.	And your partners knew that, too?	03:36:38
13		I don't have a recollection of it.	03:34:03	13	A.	Yes.	03:36:40
14	Q.	Okay. Well, the re line is "October	03:34:05	14	Q.	That was a very -- even I remember	03:36:40
15		19, 1987 Madoff investment - profit distribution."	03:34:09	15		that day and I was young, I guess.	03:36:42
16		Is it your understanding that this was an	03:34:16	16	A.	Yes.	03:36:46
17		investment -- first of all, do you have recollection	03:34:19	17	Q.	Do you recall any discussion at all	03:36:48
18		of an October 19th, 1987 --	03:34:21	18		about how fortuitous it was that Madoff made the	03:36:51
19	A.	Yes. It's a very significant date.	03:34:23	19		investments on -- at the time of the market crash --	03:36:57
20	Q.	It is, isn't it?	03:34:25	20		MS. SESHENS: Objection. Sorry.	03:37:02
21	A.	Yes.	03:34:27	21	Q.	-- as opposed to the Friday before?	03:37:03
22	Q.	Why?	03:34:27	22		MS. SESHENS: Objection to the form.	03:37:07
23	A.	That was the date of the market	03:34:28	23	A.	First of all, there is no indication,	03:37:15
24		crash, went down like 500 points.	03:34:30	24		it says he made it on October 19. Did he make it at	03:37:17
25	Q.	That's Black Monday, right?	03:34:32	25		10, at 9:30, 10 o'clock at the beginning of the	03:37:26

188			190		
1	borrowing?	04:08:39	1	Madoff's investment strategy?	04:11:28
2	A. It was just the financing of the	04:08:40	2	MS. SESHENS: Objection to the form.	04:11:30
3	Mets, just to -- not specifically, I don't remember	04:08:42	3	Q. Is that fair?	04:11:31
4	what the money was used for, but it wasn't to, just	04:08:47	4	A. I do not.	04:11:33
5	to turn some of the investment into cash to put more	04:08:53	5	Q. Okay. You talked earlier about some	04:11:34
6	money in Madoff. That wasn't my recollection.	04:08:56	6	of the things you, some of the activities you did to	04:12:59
7	Q. I guess I was asking, my thought	04:08:59	7	either verify Madoff or check out Madoff's returns.	04:13:03
8	process was was there some connection between	04:09:03	8	Do you recall telling me about making some	04:13:07
9	Travelers loaning money to the Mets and Travelers	04:09:07	9	comparisons against the market? I forgot, I didn't	04:13:11
10	wanting to understand, perhaps Travelers wanting to	04:09:12	10	write down the exact words you used, but...	04:13:18
11	understand Madoff's investment strategy? Is there a	04:09:16	11	Let me just show you something, it	04:13:24
12	connection between those two things in your mind?	04:09:20	12	might be easier.	04:13:26
13	A. Well, if they're going to lend us	04:09:24	13	MS. SESHENS: If you want to ask him	04:13:27
14	money, and we have a great deal of money, to see	04:09:26	14	about it perhaps, rather than what he said before,	04:13:28
15	what kind of risk we are, if we have a great deal of	04:09:30	15	it will be on the record.	04:13:33
16	money invested in Madoff, I think the more they know	04:09:34	16	(Exhibit AF-6 marked for	04:13:58
17	about that investment, the more comfort or concern	04:09:36	17	identification.)	04:14:02
18	they would have, one way or another.	04:09:41	18	Q. I've handed you Exhibit AF-6. Do you	04:14:09
19	Q. In 1990, September of 1990, did you	04:09:43	19	recognize that document or series of documents?	04:14:25
20	have or did Sterling group of companies have a	04:09:48	20	A. I do. I do.	04:14:31
21	substantial amount of money with Madoff, to use your	04:09:51	21	Q. What is that?	04:14:33
22	words?	04:09:53	22	A. The first document?	04:14:34
23	A. I don't know the amount but, as I	04:10:00	23	Q. Yes.	04:14:36
24	said, any money that we had, any liquid cash, we	04:10:04	24	A. Is a chart showing various returns,	04:14:42
25	would generally invest it in Madoff.	04:10:13	25	one being Madoff, one being the prime rate, one	04:14:45
189			191		
1	Q. Even as early as 1990?	04:10:16	1	being the LIBOR rate and it looks like a fourth that	04:14:49
2	A. Yeah, because I cannot think of any	04:10:19	2	is a ten-year -- oh, ten-year treasury.	04:15:00
3	other place where we put liquid funds.	04:10:22	3	Q. Ten-year treasuries.	04:15:10
4	Q. Okay. Didn't you have some	04:10:26	4	A. Yeah. And just charting the	04:15:14
5	investments with Prudential?	04:10:28	5	comparison of these different rates to the Madoff	04:15:17
6	A. Prudential?	04:10:30	6	returns. And I guess it depends how you look at it,	04:15:19
7	Q. Yeah.	04:10:31	7	but the claim was made that there was a relationship	04:15:26
8	A. The only investments we had in	04:10:33	8	between interest rates and the Madoff returns. Not	04:15:29
9	Prudential were perhaps Saul Katz having had some	04:10:35	9	necessarily the same. It's a multiple, one is a	04:15:40
10	personal investments there, not from a company	04:10:43	10	multiple of the others, but the ups and downs bore a	04:15:44
11	standpoint.	04:10:46	11	relationship.	04:15:52
12	Q. Okay. I mean, I've seen and we're	04:10:47	12	Q. So the claim was that the trends,	04:15:52
13	going to look at some point at a few spreadsheets	04:10:49	13	when interest rates were trending up, Madoff would	04:15:56
14	where it looks like you have listed all of the	04:10:52	14	trend up, and when they were trending down, Madoff	04:15:59
15	investments of the Sterling entities, and just doing	04:10:58	15	would trend down?	04:16:01
16	some rough math it looks like 90 percent, just a	04:11:02	16	A. That's correct.	04:16:03
17	round number, 90 percent of your investment activity	04:11:06	17	Q. Did you run this comparison, or was	04:16:03
18	was with Madoff. Is that a pretty correct	04:11:09	18	it run at your direction?	04:16:07
19	understanding?	04:11:11	19	A. I don't recollect whether it was me,	04:16:14
20	A. That's not surprising to me.	04:11:14	20	my assistant, Michael Katz or somebody, somebody did	04:16:16
21	Q. Just to go back to Exhibit 5 for a	04:11:16	21	it and I don't know, I don't recall what my	04:16:22
22	minute.	04:11:19	22	involvement was, if somebody did this for me. I	04:16:25
23	A. Sure.	04:11:20	23	tend to think that's a vague recollection that	04:16:30
24	Q. You have no recollection of Barry	04:11:20	24	somebody made the charts for me. I didn't	04:16:34
25	Gonder or Travelers looking at Madoff and summing up	04:11:23	25	personally do it.	04:16:38

228			230		
1	of the Cablevision agreement was either the loan	05:27:44	1	this and then we'll end up.	05:30:12
2	money from JPMorgan Chase or the money withdrawn	05:27:48	2	Q. So you saw this in preparation for	05:30:14
3	from the Madoff accounts.	05:27:52	3	your deposition. After seeing this while you were	05:30:16
4	Q. Okay. And I think you told me this,	05:27:53	4	preparing for the deposition, did you go back to	05:30:19
5	you had no discussions with Mr. Madoff or anyone at	05:27:56	5	either Saul Katz or Fred Wilpon, or anyone else, and	05:30:22
6	Madoff about this particular transaction, correct?	05:28:00	6	say, what's the deal with this May 25th, 2004	05:30:27
7	A. The only communication I had was with	05:28:04	7	letter?	05:30:32
8	Mr. DiPascali regarding the wiring of the money to	05:28:06	8	A. No.	05:30:33
9	us and the wiring of the money back to them.	05:28:13	9	Q. Did you have any discussion with	05:30:33
10	Q. Okay. And the money -- do you know	05:28:15	10	anyone at Sterling about the subject of this letter?	05:30:35
11	what account the money came from at Madoff? Were	05:28:18	11	A. No.	05:30:41
12	you ever privy to that information?	05:28:24	12	Q. Are you -- do you have any	05:30:42
13	A. I may have been. I mean, there was	05:28:34	13	explanation for how this letter could exist, talking	05:30:44
14	correspondence that were faxed and it may -- that	05:28:36	14	about an investment by Ruth Madoff in this entity,	05:30:49
15	information may be on the correspondence.	05:28:40	15	potential investment, and you in your role and your	05:30:55
16	Q. Okay. Do you -- is my understanding	05:28:43	16	job responsibilities and the scope of your job in	05:31:00
17	correct that the JPMorgan Chase loan did come	05:28:48	17	2004, and you have no idea about these discussions?	05:31:02
18	through?	05:28:50	18	MS. SESHENS: Objection to the form.	05:31:06
19	A. Yes, it did.	05:28:50	19	A. No, I, again, I didn't know anything	05:31:16
20	Q. And so essentially you returned the	05:28:51	20	about it, I still don't know anything about it. As	05:31:19
21	money to Madoff?	05:28:53	21	far as I was concerned there was -- the transaction	05:31:21
22	A. Yes.	05:28:54	22	was as I described, an advance that was immediately	05:31:24
23	Q. Are you aware -- I mean, this letter	05:28:55	23	returned.	05:31:27
24	talks about -- frankly, doesn't talk about any of	05:28:59	24	Q. Can you think of any reason why the	05:31:28
25	the stuff that you just mentioned. This letter	05:29:02	25	transaction, as described to you, is different from	05:31:30
229			231		
1	talks about a potential investment by Ruth and the	05:29:04	1	the transaction as set forth in this letter?	05:31:33
2	advance or the simultaneous payment of 54 million in	05:29:08	2	MS. SESHENS: Objection.	05:31:36
3	connection with a proposed investment in what they	05:29:13	3	Q. Let me ask it this way, first: Do	05:31:39
4	call the network. Are you aware of any such	05:29:19	4	you agree that the transaction as described to you	05:31:42
5	discussions concerning a proposed investment by Ruth	05:29:24	5	by Mr. Katz is different from what is set forth in	05:31:44
6	in the network?	05:29:27	6	this letter?	05:31:51
7	MS. SESHENS: I'm going to just	05:29:30	7	A. Yes.	05:31:51
8	object to the preamble because the document says	05:29:31	8	Q. And materially different?	05:31:52
9	what it says, but you can certainly answer the	05:29:33	9	MS. SESHENS: Objection.	05:31:53
10	question.	05:29:36	10	A. Yes.	05:31:54
11	MR. LUCCHESI: Okay, but if you think	05:29:36	11	Q. Can you tell me any -- well, let me	05:31:55
12	I've misconstrued what the document says, let me	05:29:38	12	ask this before I ask you the final question.	05:31:57
13	know.	05:29:41	13	Given your role at the company in May	05:32:03
14	MS. SESHENS: Okay.	05:29:41	14	2004, would it surprise you that a potential	05:32:05
15	A. As I said before, in preparation for	05:29:42	15	investment into the network company would have been	05:32:13
16	the deposition is the first time I saw this.	05:29:46	16	discussed with Ruth Madoff without you having some	05:32:17
17	Q. Right, and I'm not asking you if you	05:29:49	17	knowledge of it?	05:32:21
18	saw this letter.	05:29:51	18	MS. SESHENS: Objection.	05:32:22
19	A. It's the first I knew or ever heard	05:29:52	19	A. Yes.	05:32:27
20	of this potential -- this investment, as it's	05:29:54	20	Q. Why would that surprise you?	05:32:28
21	referred to here.	05:30:02	21	MS. SESHENS: Objection.	05:32:31
22	MS. SESHENS: Tom, I don't want to	05:30:03	22	A. It would be a major transaction that	05:32:37
23	cut you off in the middle of something but we're at	05:30:05	23	not only I but all the partners would be privy to.	05:32:40
24	5:30, so at a good breaking point.	05:30:08	24	Q. Okay. And I take it from your answer	05:32:44
25	MR. LUCCHESI: Let me just finish	05:30:11	25	that this, what's reflected in this letter in	05:32:46

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

1
2
3 UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
4 ADV. PRO. NO. 08-01789 (BRL)

5 -----x
6 SECURITIES INVESTOR PROTECTION
CORPORATION, Videotaped
7 Plaintiff-Applicant, Rule 2004
8 v. Examination of:
9 BERNARD L. MADOFF INVESTMENT ARTHUR FRIEDMAN
SECURITIES, LLC, (Volume II)
10 Defendant. -----x

11 In Re:

12 BERNARD L. MADOFF,
13 Debtor. -----x

14
15 TRANSCRIPT of videotaped testimony as taken by
16 and before PATRICIA MULLIGAN CARRUTHERS, Certified
17 Court Reporter, RPR, RMR, RDR, and Notary Public of
18 the States of New York and New Jersey, at the
19 offices of Baker & Hostetler, 45 Rockefeller Plaza,
20 New York, New York on Wednesday, June 23, 2010,
21 commencing at 10:07 a.m.

22
23 BENDISH REPORTING, INC.
24 Litigation Support Services
25 877.404.2193
www.bendish.com

255			257		
1	A. Yes.	10:27:11	1	A. Yes. Then there were several	10:29:41
2	Q. Tell me about that.	10:27:12	2	accounts that were set up -- would have been	10:29:45
3	A. There was a jet that was -- a jet	10:27:21	3	referred to as leveraged accounts.	10:29:52
4	that for a while only Mr. Wilpon owned, and then	10:27:23	4	Q. Okay.	10:29:54
5	Mr. Katz purchased 50 percent, and that still exists	10:27:27	5	A. Which we opened, we started,	10:29:56
6	today that they are 50/50 partners on a jet	10:27:32	6	initiated, periodically when there was excess funds	10:30:00
7	aircraft.	10:27:35	7	that we wanted to invest in Madoff, and with those,	10:30:07
8	Q. So together they own the whole	10:27:36	8	there were -- whether it was a leveraged account or	10:30:14
9	aircraft?	10:27:37	9	not, if there were funds that we were just going to	10:30:16
10	A. Yes.	10:27:38	10	open a new account and somebody would say, We're	10:30:20
11	Q. And it's a particular aircraft --	10:27:38	11	opening a new account. And there would be a memo,	10:30:28
12	A. Yes. It's a G4. Yes, it's a	10:27:41	12	announcement to the other partners, If you have any	10:30:32
13	particular aircraft.	10:27:43	13	money that you wanted to invest, this is an	10:30:35
14	Q. Do you know whether Mr. Madoff has	10:27:44	14	opportunity.	10:30:38
15	ever been flown anywhere in the G4 or any prior	10:27:46	15	So whatever money I or any of the	10:30:39
16	aircraft that Sterling partners owned?	10:27:50	16	other partners happened to have, wherever it was --	10:30:44
17	A. I don't know. I don't remember	10:27:55	17	I may have accumulated money in Sterling Equities	10:30:50
18	offhand.	10:27:59	18	funding, for example, wherever there might be or	10:30:55
19	Q. Going back to the accounts and the	10:28:01	19	there was a distribution. So everybody had cash,	10:31:02
20	different people owning different percentages of the	10:28:07	20	whatever anybody had would be put in that account	10:31:07
21	accounts, I noticed that on many of the Sterling	10:28:10	21	and, therefore, the percentages would be determined	10:31:09
22	entity accounts that were opened in the name of	10:28:14	22	by how much money everybody put in, so that would be	10:31:12
23	Sterling entities, there are also individuals that	10:28:18	23	different than any other account we had.	10:31:16
24	are listed as -- the phrase, I think, you used in	10:28:22	24	Q. Okay. So your -- Your point is that	10:31:18
25	some of your documents is "tenants in common." Am I	10:28:26	25	the percentages in those accounts reflected the	10:31:22
256			258		
1	correct?	10:28:30	1	money that was actually put in by the individual	10:31:26
2	A. There were several tenants-in-common	10:28:30	2	partners.	10:31:28
3	accounts, yes.	10:28:33	3	A. Yes.	10:31:29
4	Q. And often, you are one of the tenants	10:28:34	4	Q. Or individual account holders.	10:31:29
5	in common when it's a Sterling entity account?	10:28:36	5	A. Yes.	10:31:32
6	A. Yes.	10:28:41	6	Q. Did you ever receive an interest in	10:31:32
7	Q. And also your percentage interest as	10:28:41	7	an account where you didn't have to either put in	10:31:34
8	a percentage is a relatively small number; you know,	10:28:46	8	money of your own or where it -- it was a something	10:31:39
9	1 percent, 5 percent, a fraction of 1 percent. Is	10:28:51	9	other than a reflection of the business --	10:31:46
10	that correct?	10:28:55	10	underlying business documents for the business that	10:31:50
11	A. That's correct.	10:28:55	11	opened that account?	10:31:52
12	Q. How did you obtain that interest in	10:28:55	12	MS. SESHENS: Objection to the form.	10:31:53
13	the account? Do you understand my question?	10:28:58	13	Q. Do you understand the question? What	10:31:56
14	A. Yes. There are different types of	10:29:00	14	I'm trying to -- I'll tell you what I'm trying to	10:31:58
15	accounts, two that I could think of immediately.	10:29:06	15	find out.	10:32:01
16	One, if the tenant-in-common account was as a result	10:29:10	16	A. Yes.	10:32:02
17	of a business arrangement, the money in the account,	10:29:16	17	Q. I'm interested in knowing whether you	10:32:02
18	whatever was set forth in the account, was divided	10:29:20	18	ever received an interest in an account as	10:32:04
19	according to the interest in whatever business it	10:29:24	19	remuneration or compensation for your work	10:32:07
20	was. If it was Sterling Equities, whatever our	10:29:28	20	activities?	10:32:13
21	percentage interest was that we owned.	10:29:32	21	A. The answer to that question is no.	10:32:14
22	Q. Pursuant to the partner agreement or	10:29:35	22	Q. Okay. That's really where I'm going.	10:32:18
23	business agreement?	10:29:37	23	So other -- The two ways you	10:32:20
24	A. Yes.	10:29:37	24	described to me that you got interest in the	10:32:23
25	Q. It would be mirrored on the account.	10:29:38	25	accounts, would those be applicable to everyone else	10:32:25

359			361		
1	the true facts --	02:17:21	1	Q. And you were the -- You were the	02:20:00
2	A. That certainly was one reason, yes.	02:17:23	2	contact for these others --	02:20:02
3	Q. Okay. Can you think of any other	02:17:25	3	A. Yes.	02:20:04
4	reasons other than what you told me.	02:17:27	4	Q. -- with respect to Madoff, the	02:20:04
5	A. Just -- Just to look at the Mets	02:17:29	5	liaison?	02:20:06
6	numbers separately. If we didn't do that, they	02:17:31	6	A. That's correct.	02:20:07
7	would be blended in with all the others. This was a	02:17:36	7	Q. Was there a -- any limitations on the	02:20:08
8	way to put all the Mets numbers together.	02:17:37	8	persons or the types of persons for whom you would	02:20:12
9	Q. Did you ever -- Did you ever back out	02:17:44	9	serve that function?	02:20:15
10	the outsiders?	02:17:45	10	A. Yes. The criteria varied according	02:20:22
11	A. Yes. As a matter -- Not that we	02:17:48	11	to time. At different times, the criteria may have	02:20:24
12	backed out the outsiders, but there was a time --	02:17:53	12	changed. For one thing, Mr. Madoff imposed certain	02:20:27
13	And I don't remember when it started. -- that we	02:17:58	13	criteria later, at more recent times.	02:20:33
14	had, like, two different lists that were combined,	02:18:01	14	Q. You mean like a minimum dollar	02:20:39
15	but the first portion was all of the Sterling with a	02:18:07	15	amount?	02:20:41
16	subtotal and then the others with a subtotal.	02:18:13	16	A. Yeah. Like he said, no, he won't	02:20:42
17	Apparently, it didn't yet happen in '04 because	02:18:23	17	take accounts under a million dollars. Then it	02:20:44
18	this -- this has --	02:18:27	18	became \$2 million. And so he set certain criteria.	02:20:47
19	Q. Looks like everything is together?	02:18:28	19	At other times when we were getting too many other	02:20:53
20	A. Yes, everything is together, but at a	02:18:31	20	accounts, a rule was imposed that Saul Katz would	02:20:59
21	certain point -- I don't think it was much later	02:18:34	21	have -- You have to get his approval before you open	02:21:06
22	than that that we began to do that, that the	02:18:37	22	an account.	02:21:09
23	first -- maybe the first two pages were strictly	02:18:40	23	Q. You said there were too many other --	02:21:09
24	Sterling partners.	02:18:45	24	others accounts. Too many according to whom, to you	02:21:11
25	Q. On the -- On the subject of others --	02:18:47	25	or according to the Sterling people or according to	02:21:17
360			362		
1	I know a lot of the others because I can recognize	02:18:51	1	Madoff?	02:21:21
2	the names or a couple of them you identified were	02:18:55	2	A. Too many that we made a	02:21:23
3	relatives or, you know, relatives through marriage	02:18:59	3	determination, but it was affecting the Sterling	02:21:26
4	of one or more of the Sterling partners. Correct?	02:19:03	4	partners.	02:21:32
5	A. Yes. They were relatives. They were	02:19:08	5	Q. How so?	02:21:32
6	very close friends. They were --	02:19:10	6	A. In a sense, in the beginning, just as	02:21:34
7	Q. Some of them were friends?	02:19:11	7	has been said, it may -- He -- Madoff may have gone	02:21:38
8	A. Business acquaintances.	02:19:14	8	in and out of the market in one day. When then	02:21:41
9	Q. Business acquaintances?	02:19:17	9	these accounts were so large in number and amount,	02:21:50
10	A. Yes.	02:19:19	10	it might have taken two, three days to move -- to	02:21:54
11	Q. Was there a limit on who could be,	02:19:19	11	open that many accounts and close that many	02:21:57
12	you know, referred to Madoff or --	02:19:27	12	accounts. So it took longer.	02:22:00
13	A. There were --	02:19:31	13	Q. For Madoff or for you?	02:22:01
14	Q. Let me ask it a different way. Was	02:19:33	14	A. For Madoff. And so yes, that could	02:22:04
15	there a limit -- let me actually ask a totally	02:19:35	15	be both positive and negative for us.	02:22:13
16	different question, and then I'll come to the limit	02:19:36	16	Q. How many -- Just approximately, how	02:22:16
17	question.	02:19:40	17	many outsider accounts were you doing the	02:22:19
18	My understanding is that you managed	02:19:41	18	administration of at that -- at the peak?	02:22:23
19	the accounts for these others that are listed on	02:19:44	19	MS. SESHENS: Object to the form.	02:22:35
20	these reports in the same manner that you managed --	02:19:47	20	Q. What was the maximum number of	02:22:36
21	A. When you say "manage," are you	02:19:50	21	outsider accounts that you administered at any one	02:22:38
22	talking about from an administrative point of view?	02:19:52	22	time?	02:22:41
23	Q. Yes, to be fair, from an	02:19:55	23	A. I'm guessing it might have been 150.	02:22:42
24	administrator's standpoint.	02:19:57	24	Q. And do you have any idea how many	02:22:46
25	A. Yes.	02:20:00	25	accounts there were at Madoff's brokerage house?	02:22:50

363			365			
1	A.	How many there were at his --	02:22:58	1	Correct me if I'm wrong. I just want to make sure I	02:24:57
2	Q.	Yeah. How many customer accounts	02:23:00	2	understand this. I thought you said -- The next	02:24:59
3		Madoff had --	02:23:02	3	thing you said was, Sometimes Madoff went in and out	02:25:01
4	A.	Had no idea.	02:23:04	4	of the market in one day, and it was taking too long	02:25:03
5	Q.	-- entirely?	02:23:05	5	to open and close the accounts. That was a Madoff	02:25:05
6	A.	Had no idea.	02:23:07	6	issue, not a Sterling issue. Or did I misunderstood	02:25:10
7	Q.	Did you have any -- Did you make any	02:23:09	7	you?	02:25:10
8		assumptions about the number of accounts Madoff was	02:23:10	8	A. That was -- No. It took Madoff	02:25:13
9		handling?	02:23:12	9	longer, but it was a Sterling issue that we felt, if	02:25:14
10	A.	I don't remember making any	02:23:18	10	he wanted to buy stocks, for example, he was going	02:25:19
11		assumptions. I had a feeling in my own mind that we	02:23:19	11	into the market, we presumed that the day that he	02:25:23
12		weren't the largest account, and he had numerous	02:23:23	12	wanted to go in was the best day, not necessarily	02:25:29
13		accounts.	02:23:28	13	better than tomorrow, but that's when he wanted to	02:25:33
14	Q.	You knew he had other customers. You	02:23:28	14	go in, that it would be nice to know that all of our	02:25:36
15		just knew that. Right?	02:23:31	15	accounts went in on that day that he thought it was	02:25:40
16	A.	Yes.	02:23:32	16	good to go in.	02:25:43
17	Q.	And you told me yesterday you didn't	02:23:32	17	Q. Okay. That was what you preferred?	02:25:44
18		know anything about their accounts, but you knew he	02:23:34	18	A. Strictly from our point of view.	02:25:46
19		had other customers. And when you say you knew you	02:23:37	19	Q. Got it. So Madoff never called you.	02:25:48
20		weren't the largest, what do you mean by that?	02:23:40	20	No one from Madoff ever called you and said, It's	02:25:50
21	A.	I guess I just had a feeling that	02:23:43	21	taking us too long to get your account into the	02:25:54
22		there were accounts with more money and --	02:23:46	22	market, Stop bringing outsiders in?	02:25:57
23	Q.	More money. Okay.	02:23:50	23	A. Right.	02:26:00
24	A.	More money invested.	02:23:52	24	Q. Okay.	02:26:00
25	Q.	Did you think there were persons or	02:23:54	25	A. That's correct.	02:26:00
364			366			
1		business entities that had more accounts, just	02:23:56	1	Q. I -- I did misunderstand that.	02:26:00
2		numerically more --	02:23:59	2	Going back to the last page of	02:26:06
3	A.	No, I didn't think that.	02:24:01	3	Exhibit 16?	02:26:07
4	Q.	Did you think you had the most?	02:24:02	4	A. Okay.	02:26:17
5	A.	I don't remember giving a thought,	02:24:05	5	Q. After the adjustments for excluding	02:26:17
6		but if I had -- if I had given it a thought, I think	02:24:07	6	the Mets, there are other adjustments being made for	02:26:19
7		I would probably have felt that we had. But I had	02:24:10	7	outstanding debts. Do you see that?	02:26:23
8		no way of knowing. I really didn't know.	02:24:13	8	A. Yes.	02:26:25
9	Q.	Okay. I guess what I'm driving at	02:24:15	9	Q. And what was the -- What was being	02:26:27
10		here is, did it seem at all unusual to you that	02:24:17	10	accomplished there? What was the purpose of that?	02:26:29
11		Madoff would say it's taking too long to handle	02:24:21	11	A. If we wanted to know our net equity	02:26:32
12		these 150 accounts in light of the volume of other	02:24:24	12	as opposed to how much -- what each account, the	02:26:38
13		business that Madoff was handling that was not	02:24:28	13	gross value of the account, this would give us the	02:26:42
14		related to Sterling?	02:24:32	14	net equity. This adjustment is primarily -- And you	02:26:45
15		MS. SESHENS: Objection. I don't	02:24:33	15	can see a lot of the LLC accounts which were talking	02:26:49
16		think that's what he said in his prior testimony.	02:24:34	16	about the leveraged --	02:26:54
17	Q.	Did I misunderstand your prior	02:24:37	17	Q. Okay.	02:26:54
18		testimony?	02:24:39	18	A. -- the one -- the accounts that -- I	02:26:57
19	A.	Yeah. I didn't -- I said, if	02:24:40	19	don't know if you're ready to talk about that. --	02:26:58
20		anything, it -- they originated with us that we felt	02:24:41	20	where Sterling Thirty -- For example, we may have --	02:27:01
21		internally that having so many accounts is	02:24:44	21	Ray had \$30 million to invest and then borrowed	02:27:08
22		detrimental to us.	02:24:51	22	another 30 and opened an account for \$60 million.	02:27:11
23	Q.	Right. That's what you said first.	02:24:52	23	Q. Correct. So you're backing out your	02:27:14
24	A.	Yeah.	02:24:52	24	borrowing?	02:27:14
25	Q.	And then I thought you told me --	02:24:54	25	A. I'm borrowing -- backing out the	02:27:16

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,	Rule 2004
v.	Examination of:
BERNARD L. MADOFF INVESTMENT SECURITIES, LLC,	ARTHUR FRIEDMAN
Defendant.	(Volume III)

-----x

In Re:

BERNARD L. MADOFF,
Debtor.

-----x

TRANSCRIPT of testimony as taken by and before
NANCY C. BENDISH, Certified Court Reporter, RMR, CRR
and Notary Public of the States of New York and New
Jersey, at the offices of Baker & Hostetler, 45
Rockefeller Plaza, New York, New York on Thursday,
June 24, 2010, commencing at 9:38 a.m.

BENDISH REPORTING, INC.
Litigation Support Services
877.404.2193
www.bendish.com

421			423		
1	A. One is Mr. Klein. I can't think of	10:17:01	1	did.	10:19:56
2	his first name.	10:17:14	2	(Exhibit AF-20 marked for	10:20:15
3	Q. First names are an issue today.	10:17:15	3	identification.)	10:20:19
4	A. It's not Norman, I know that.	10:17:18	4	Q. I'm handing you Exhibit 20, which I	10:20:23
5	Q. Might it be Irwin?	10:17:20	5	assume you've seen before, correct?	10:20:30
6	A. No, no. It will come, but it's still	10:17:21	6	A. Yes.	10:20:33
7	processing the name of the bookkeeper. I've got a	10:17:31	7	Q. The first page is the memo that you	10:20:41
8	few alphabets running at the same time.	10:17:34	8	referred to, February 26, 2001?	10:20:45
9	Q. Other than a guy name Klein --	10:17:36	9	A. Yes.	10:20:56
10	A. Yes.	10:17:39	10	Q. Is Robert Duran the individual you	10:20:56
11	Q. -- do you remember any other first or	10:17:40	11	met with?	10:20:59
12	last names for American Securities?	10:17:42	12	A. That's correct.	10:21:00
13	A. Not at the moment.	10:17:44	13	Q. And you believe you only had one	10:21:01
14	Q. Did you have contact directly with	10:17:45	14	meeting with Mr. Duran?	10:21:03
15	American Securities about potential insurance for	10:17:48	15	A. I believe so.	10:21:04
16	the Madoff investments?	10:17:51	16	Q. And following the meeting with	10:21:05
17	A. I don't recollect specifically. It's	10:17:57	17	Mr. Duran were there any follow-up conversations?	10:21:07
18	possible that I called, that Mr. Katz referred me to	10:17:59	18	A. Following the meeting?	10:21:13
19	Mr. Klein or somebody else.	10:18:04	19	Q. Yes.	10:21:14
20	Q. Do you know why -- first, do you know	10:18:06	20	A. I don't recall any follow-up after	10:21:16
21	when American Securities purchased insurance in	10:18:12	21	the meeting.	10:21:18
22	connection with its Madoff investments?	10:18:17	22	Q. Okay. Whose handwriting is it on the	10:21:18
23	A. I don't know if it was at the time I	10:18:21	23	first page of Exhibit 20?	10:21:26
24	wrote the memo or some previous time sometime prior	10:18:22	24	A. That's mine.	10:21:31
25	to that and it just happened to come up in a	10:18:26	25	Q. And what does the first line say?	10:21:32
422			424		
1	conversation, no, I don't know.	10:18:29	1	Does that say how to --	10:21:36
2	Q. Do you know why American Securities	10:18:33	2	A. Define.	10:21:38
3	may have purchased insurance to cover its Madoff	10:18:34	3	Q. How to define fraud?	10:21:39
4	investments?	10:18:37	4	A. Yes.	10:21:41
5	A. I don't know.	10:18:39	5	Q. What was that? Why did you write	10:21:41
6	Q. What did you do after learning of the	10:18:41	6	that on this?	10:21:44
7	existence of this insurance or potential insurance?	10:18:45	7	A. I was taking notes. I don't know,	10:21:46
8	A. As I said, I did make some contact	10:18:51	8	conversation, I don't know with whom, maybe one or	10:21:51
9	and got details on what the insurance was about and	10:18:56	9	more partners, I don't know.	10:21:54
10	the cost of the insurance.	10:19:01	10	Q. Okay. Do you recall what the concern	10:21:56
11	Q. Okay. And do you have a -- well,	10:19:03	11	was, how to define fraud?	10:21:57
12	strike that.	10:19:07	12	A. The question --	10:22:01
13	Who did you contact?	10:19:15	13	MS. SESHENS: Objection to form.	10:22:01
14	A. I'm fairly certain I reported that,	10:19:19	14	Q. Let me rephrase the question.	10:22:02
15	when I made the contact, the gentleman's name, the	10:19:24	15	Was there an issue or a concern	10:22:04
16	company he worked for and the other details of the	10:19:27	16	raised about how fraud was defined in the insurance	10:22:06
17	meeting. I believe it was Michael Katz and I both	10:19:33	17	policy?	10:22:10
18	met with some individual from an insurance company.	10:19:37	18	A. There was just a curiosity, a fact-	10:22:12
19	Q. Okay. And did you have more than one	10:19:43	19	finding question, how did it define. It wasn't...	10:22:17
20	meeting with the insurance company person?	10:19:44	20	Q. Other than learning that American	10:22:25
21	A. I don't recollect if there was more.	10:19:48	21	Securities had purchased third-party insurance for	10:22:26
22	Tend to think there was only one meeting.	10:19:50	22	their accounts at Madoff, was there any other	10:22:32
23	Q. And did you take notes at that	10:19:52	23	precipitating event that made the Sterling Group	10:22:34
24	meeting?	10:19:54	24	think insurance was a good idea, potentially?	10:22:39
25	A. Yes. I usually do and I assume I	10:19:54	25	MS. SESHENS: Objection to the form.	10:22:43

429			431				
1	Q.	I've handed you another handwritten	10:29:31	1	A.	Correct.	10:31:58
2		document we've marked as Exhibit 22. Does that	10:29:35	2	Q.	And then in parens it says "Ponzi"?	10:31:59
3		appear to be your handwriting?	10:29:40	3	A.	Yes.	10:32:02
4	A.	Yes, it is.	10:29:42	4	Q.	What was the conversation that	10:32:04
5	Q.	Do you recall taking those notes?	10:29:42	5		surrounded those notes?	10:32:06
6	A.	I don't actually recall taking them,	10:29:47	6	A.	This, to some extent I'm guessing,	10:32:18
7		but there's no question that I took them.	10:29:50	7		but that, he mentioned, I have some recollection of	10:32:20
8	Q.	Can you tell from, either because you	10:29:53	8		him giving examples of what types of fraud, and	10:32:24
9		remember and know or because something in the	10:29:55	9		Ponzi was one of them. You can see I wasn't even	10:32:31
10		document shows you, the circumstances under which	10:29:58	10		quite sure how to spell Ponzi.	10:32:35
11		you wrote these notes?	10:30:01	11	Q.	I see.	10:32:37
12	A.	I would say they were taken at the	10:30:06	12	A.	I'm not sure how I wound up	10:32:38
13		time that I met with Mr. Duran or immediately	10:30:08	13		ultimately, either. It's hard to read.	10:32:41
14		thereafter.	10:30:12	14	Q.	Looks like you've got an E on the	10:32:44
15	Q.	Okay. Then what -- can you tell me,	10:30:13	15		end.	10:32:47
16		the other notes that we looked at that were part of	10:30:16	16	A.	I think so, too.	10:32:47
17		Exhibit 20, when were those taken?	10:30:19	17	Q.	Did you know what a Ponzi scheme was	10:32:48
18	A.	Those were taken sometime shortly	10:30:29	18		at that time?	10:32:50
19		after February 26.	10:30:31	19	A.	I don't think I did.	10:32:52
20	Q.	Including the second page of Exhibit	10:30:33	20	Q.	Was there any discussion of Madoff in	10:32:54
21		20? Let me ask this: Is the second page of Exhibit	10:30:37	21		particular during the course of this meeting?	10:32:58
22		20 the notes that you took in order to write the	10:30:45	22	A.	No.	10:33:00
23		memo?	10:30:49	23	Q.	Did you discuss your investments with	10:33:01
24	A.	Yes.	10:30:49	24		Madoff? Other than the fact that you had	10:33:04
25	Q.	Okay, I didn't realize that. Thank	10:30:50	25		investments. Well, let me ask that. Did you	10:33:06
430			432				
1		you.	10:30:52	1		indicate to Mr. Duran that you had investments at	10:33:09
2		So Exhibit 22 then are the notes you	10:30:52	2		Madoff?	10:33:14
3		took at the meeting with Mr. Duran?	10:30:54	3	A.	I don't recall what information I	10:33:16
4	A.	Either at or immediately thereafter.	10:30:57	4		gave him. It was more seeking information from him	10:33:19
5	Q.	Okay. And all the notes on this page	10:31:00	5		about coverage. I might very well but I don't	10:33:22
6		are in your handwriting?	10:31:05	6		really have a recollection.	10:33:27
7	A.	Yes, they are.	10:31:07	7	Q.	Do you recall whether you showed	10:33:28
8	Q.	The first -- let's just read the	10:31:07	8		Mr. Duran or shared with Mr. Duran any information	10:33:30
9		beginning part. What does that say? That heading,	10:31:09	9		about the number of accounts, types of accounts or	10:33:33
10		what does that say? Bond, is it bond coverage?	10:31:13	10		dollar value of the accounts that you wanted	10:33:37
11	A.	Looks like bond coverage.	10:31:17	11		insurance coverage on?	10:33:40
12	Q.	Do you know what that refers to?	10:31:19	12	A.	I don't remember doing that.	10:33:43
13	A.	No. I don't know why I would have	10:31:21	13	Q.	Do you remember sharing -- do you	10:33:44
14		written bond. The fact that it's outside the	10:31:25	14		remember showing him any documents?	10:33:47
15		margin, perhaps it doesn't -- perhaps I started to	10:31:28	15	A.	No.	10:33:49
16		write something. I don't know why I would have	10:31:33	16	Q.	The second point says insolvency for,	10:33:54
17		written bond. I can understand coverage, but...	10:31:35	17		does that say whatever reason?	10:33:58
18	Q.	Do you understand the beginning of	10:31:39	18	A.	Whatever reason.	10:34:00
19		your notes to be describing the scope of coverage?	10:31:41	19	Q.	What was the discussion around that	10:34:00
20	A.	Yes.	10:31:48	20		point?	10:34:03
21	Q.	And this was based on the discussion	10:31:48	21	A.	I don't rec -- I don't recollect the	10:34:09
22		that took place in June of 2001?	10:31:50	22		actual discussion, but I don't think there was very	10:34:13
23	A.	Yes.	10:31:52	23		much discussion. Whatever reason was very broad.	10:34:17
24	Q.	And the first line says, "Fraud or	10:31:53	24	Q.	Further down on the page after it	10:34:21
25		fidelity"?	10:31:57	25		talks about, says deductibility and premium, it says	10:34:23

		433			435
1	SIPC, S-I-P-C, dash, only insolvency. What does	10:34:27	1	I have a recollection of something like 50 percent	10:39:23
2	that refer to?	10:34:31	2	was an estimate. There was nothing fixed, no	10:39:26
3	A. I'm only interpreting what I think it	10:34:36	3	guarantee. And it would be relatively short-term	10:39:29
4	means, is that SIPC only covers insolvency.	10:34:39	4	investment.	10:39:35
5	Q. And then below that it says, "Limited	10:34:43	5	Q. So the 50 percent, was that the	10:39:36
6	to 100 million," dash, and then in parentheses it	10:34:46	6	return or was that --	10:39:39
7	says 300,000. Then below that, "probably 10 million	10:34:52	7	A. No.	10:39:40
8	to 20 million per account." What does that refer	10:34:58	8	Q. -- the increase on what you were --	10:39:41
9	to, what was being discussed at that point?	10:35:04	9	A. If we were earning 12, we might have	10:39:43
10	A. The maximum amount of coverage that	10:35:07	10	earned up to 18.	10:39:46
11	would be available would be 100 million. The cost	10:35:10	11	Q. And you recall only one instance of	10:39:48
12	would be 300,000, and he probably indicated or I	10:35:13	12	that?	10:39:49
13	summarized that the maximum coverage for any one	10:35:22	13	A. Yes.	10:39:50
14	account would be somewhere between 10 and 20	10:35:29	14	Q. Do you recall the specifics? What	10:39:50
15	million.	10:35:32	15	the deal was?	10:39:53
16	Q. So, was this insurance ever	10:35:33	16	A. I recall that we did invest, in fact,	10:39:55
17	purchased?	10:35:37	17	\$22 million. What other information do you want?	10:39:58
18	A. No.	10:35:38	18	Q. I didn't know -- were you done?	10:40:11
19	Q. Was any similar insurance ever	10:35:38	19	A. Well, that was my first initial	10:40:13
20	purchased?	10:35:41	20	recollection, that we did get involved, we did set	10:40:16
21	A. No.	10:35:42	21	aside 22 million, we did set up a separate	10:40:20
22	Q. By similar I mean other insurance to	10:35:43	22	tenant-in-common account for the 22 million dollar	10:40:24
23	cover investments made with Madoff against fraud or	10:35:45	23	account.	10:40:29
24	infidelity.	10:35:48	24	(Exhibit AF-23 marked for	10:40:45
25	A. No.	10:35:49	25	identification.)	10:40:48
		434			436
1	Q. What was the reason insurance was not	10:35:51	1	A. I remember the amounts much better	10:41:07
2	purchased?	10:35:53	2	than I remember the first names.	10:41:10
3	A. We didn't see any need and the cost	10:36:02	3	Q. And I don't think that's because	10:41:14
4	was very high.	10:36:04	4	money is more important to you than friendships.	10:41:16
5	Q. Do you know who the SKCG Group is?	10:37:11	5	A. No, absolutely not.	10:41:20
6	A. It's an insurance company that we	10:37:16	6	Q. It's because you're an accountant.	10:41:21
7	work with now, one of the insurance companies.	10:37:18	7	A. Thank you very much. No.	10:41:23
8	Q. What type -- do they provide any	10:37:40	8	Q. Is that, Exhibit 23, do you recognize	10:41:26
9	insurance -- what type of insurance does SKCG Group	10:37:42	9	that as a memo that you wrote to the partners on	10:41:30
10	provide to you?	10:37:47	10	November 28th, 2005?	10:41:36
11	A. Provide property insurance for the	10:37:49	11	A. Yes.	10:41:39
12	various properties that we own or manage.	10:37:52	12	Q. And does that memo relate to the	10:41:39
13	Q. That insurance wouldn't cover your	10:37:58	13	special investment that you were just discussing?	10:41:42
14	Madoff losses, correct?	10:38:00	14	A. That's correct.	10:41:47
15	A. No.	10:38:02	15	Q. Now, tell me again, I think you might	10:41:48
16	Q. Do you recall from time to time that	10:38:30	16	have said this, how did you learn of this investment	10:41:59
17	Madoff would offer, I'll call them special deals for	10:38:34	17	opportunity with Madoff?	10:42:03
18	investment?	10:38:41	18	A. It was at a partners' meeting. I	10:42:10
19	A. I recall one such time. Only one.	10:38:45	19	don't remember who presented the possibility that	10:42:15
20	Q. What do you recall? Tell me.	10:38:49	20	came from Mr. Madoff. As I said, an opportunity to	10:42:17
21	A. I recall that it was reported to us,	10:38:55	21	earn something more than the normal -- and I have a	10:42:27
22	and I don't remember by whom or how they got the	10:39:01	22	vague recollection that it was an estimated 50	10:42:31
23	information, that he was offering a special return.	10:39:03	23	percent more. Not a -- it wasn't defined clearly,	10:42:34
24	He felt that there was something he could do to	10:39:14	24	but some addition, that we can anticipate something	10:42:39
25	increase the normal return we were getting by up to,	10:39:18	25	like a 50 percent improvement on whatever earnings	10:42:45

		437			439
1	we might have.	10:42:49	1	legality of the opportunity, was that raised among	10:45:54
2	Q. Now, what was the method or the	10:42:51	2	the partners?	10:45:58
3	strategy that Madoff was going to use to obtain this	10:42:58	3	A. Not that I can specifically remember.	10:46:01
4	enhanced return?	10:43:05	4	What I said or tried to say before, and maybe not	10:46:04
5	A. I don't know.	10:43:08	5	too clearly, was that I could understand if any	10:46:07
6	Q. Was there any discussion about it	10:43:08	6	issue was raised it might have been, just in	10:46:11
7	among the partners?	10:43:10	7	passing, it might have been that there's nothing	10:46:17
8	A. There might have been discussion, but	10:43:14	8	illegal about what he's proposing.	10:46:20
9	I don't think there was any revelation as to what,	10:43:16	9	Q. How would you know if you didn't know	10:46:23
10	it wasn't indicated, it wasn't defined exactly what	10:43:23	10	what the strategy was?	10:46:24
11	he was going to do.	10:43:25	11	A. That's -- if there was any feeling at	10:46:29
12	Q. What was the basis on which the	10:43:27	12	all, we would have pursued -- I guess that question	10:46:33
13	partnership decided to invest \$22 million without	10:43:28	13	would have been, if it wasn't asked. But, on the	10:46:37
14	knowledge of the -- or without a revelation of the	10:43:34	14	other hand, that was only my bringing it up in a	10:46:42
15	underlying investment strategy?	10:43:38	15	guess, which I shouldn't have done because I think	10:46:45
16	A. We had a lot more money invested with	10:43:44	16	the comfort was there that in all of our dealings	10:46:48
17	Mr. Madoff than \$22 million. And we had total	10:43:47	17	with him there was nothing that we deemed illegal or	10:46:52
18	confidence, we had total comfort. There wasn't	10:43:52	18	that in any way there was any reason to believe was	10:46:56
19	questions in our mind about legitimacy or	10:43:58	19	not totally legal. Then this proposal also	10:47:01
20	illegality. We had no feeling that the bulk of the	10:44:05	20	shouldn't have involved anything illegal.	10:47:07
21	money that we had invested with him was at risk in	10:44:08	21	Q. Was this discussion that you're	10:47:08
22	any way or that he was doing anything wrong. And	10:44:11	22	referring to, did it take place at a normal, at a	10:47:10
23	this, certainly there were questions, I don't	10:44:16	23	regular, regularly scheduled partners' meeting; do	10:47:13
24	remember this specifically, but certainly a question	10:44:20	24	you recall?	10:47:21
25	that would come up was the legality, and there was	10:44:22	25	A. I can't say for sure. I don't	10:47:24
		438			440
1	assurance that this would be not illegal in any way,	10:44:30	1	remember it being -- no special meeting was called	10:47:28
2	he just had the ability to, he thought, for a short	10:44:36	2	for this purpose. Whether it was at a regular	10:47:30
3	period of time, do some kind of a strategy that	10:44:39	3	partners' meeting or some other meeting where all	10:47:36
4	would lend a greater profit than normal.	10:44:42	4	the partners were present, could have been either	10:47:39
5	Q. Was Madoff part of these discussions?	10:44:47	5	one.	10:47:42
6	A. No.	10:44:50	6	Q. Whether this helps you or not, I can	10:47:43
7	Q. Who had the discussions with Madoff?	10:44:50	7	tell you November 28th, 2005 was a Monday.	10:47:45
8	A. I don't recollect specifically.	10:44:54	8	A. That is evidence that perhaps it was	10:47:52
9	Q. It sounds like there was some back	10:44:55	9	a partners' meeting.	10:47:54
10	and forth on this. Who raised -- or was there back	10:44:58	10	Q. So, would --	10:47:56
11	and forth with Madoff or his organization?	10:45:02	11	A. But I should say that the other	10:47:59
12	A. I don't know if there was back and	10:45:06	12	Monday that we don't have a partners' meeting, we	10:48:02
13	forth or it was all in one conversation, where he	10:45:07	13	often sit around and have lunch together. So it	10:48:07
14	related it to -- it was one of the senior partners.	10:45:11	14	could have been brought up at a time when everybody	10:48:10
15	Q. You mean either Fred Wilpon or Saul	10:45:15	15	was present or most everybody was present.	10:48:12
16	Katz?	10:45:19	16	Q. What -- I'm sorry.	10:48:20
17	A. Probably.	10:45:19	17	A. That's the end of my statement.	10:48:22
18	Q. Who raised the issue of illegality?	10:45:20	18	Q. What further, I use the word	10:48:23
19	A. No, nobody raised it. I just	10:45:24	19	diligence or investigation, did you or any of the	10:48:26
20	mentioned for the first time here that I could	10:45:27	20	partners to your knowledge take or make regarding	10:48:32
21	understand that point at least being mentioned, but	10:45:32	21	this investment opportunity?	10:48:36
22	there was no --	10:45:36	22	MS. SESHENS: Objection to the form.	10:48:38
23	Q. I'm confused. At the discussion in	10:45:37	23	A. To my knowledge and recollection,	10:48:42
24	November, around November of 2005 about this special	10:45:44	24	none, no other.	10:48:45
25	investment opportunity, did the issue of the	10:45:49	25	Q. Now, you mentioned investing 22	10:48:50

		473			475
1	it in an account and it would, as long as you didn't	11:54:42	1	Q. Everybody would get their pro rata	11:58:30
2	touch it, it wouldn't be -- didn't withdraw any	11:54:48	2	share of the taxing?	11:58:32
3	more, it wouldn't be taxable?	11:54:50	3	A. Yeah, it would break the account. Do	11:58:34
4	A. Right. As long as you're designated,	11:54:52	4	you understand? You can't continue, you couldn't	11:58:35
5	and you are actually tracing it, you can point to it	11:54:54	5	continue a Madoff account if one person, for	11:58:37
6	and say --	11:54:57	6	example, withdraws. It was set, once it's set with	11:58:41
7	Q. This came from there?	11:54:57	7	given percentages it's an account and take one	11:58:44
8	A. Right.	11:54:59	8	person out, you have to break that and set up a new	11:58:47
9	Q. Okay.	11:56:08	9	account.	11:58:51
10	(Comments off the record.)	11:56:08	10	Q. So the new accounts that were set up	11:58:53
11	(Exhibit AF-27 marked for	11:56:18	11	in the name of each partner were the TR designation?	11:58:56
12	identification.)	11:56:25	12	A. Correct.	11:59:03
13	Q. Have you had a chance to look at	11:56:34	13	Q. Were those set up at Madoff or were	11:59:03
14	Exhibit 27?	11:56:36	14	they set up somewhere else?	11:59:05
15	A. I'm still looking at it.	11:56:38	15	A. No, they were set up at Madoff.	11:59:06
16	Q. I'm not going to ask you about the	11:56:44	16	Q. What was Sterling Brunswick? What	11:59:15
17	attached spreadsheets.	11:56:48	17	was that?	11:59:25
18	A. Okay.	11:56:53	18	A. That was, I just referred to the	11:59:27
19	Q. But you can look at them if you wish.	11:56:53	19	property in New Jersey that Michael Simon was	11:59:29
20	A. All right. I've read it fairly	11:56:56	20	involved in managing. That was a property we owned	11:59:31
21	quickly.	11:57:01	21	in New Jersey. It was a warehouse property.	11:59:34
22	Q. This is a memo you wrote on May 25th,	11:57:01	22	Q. Okay. Let's talk about, little bit	11:59:43
23	2002 to partners, correct?	11:57:04	23	about double-up accounts.	11:59:47
24	A. Yes.	11:57:06	24	A. Um-hum.	11:59:53
25	Q. And it's regarding Madoff tracing	11:57:06	25	Q. I think we talked yesterday just a	11:59:53
		474			476
1	accounts. Does that -- that's the subject line.	11:57:09	1	little bit about them. Could you explain to me what	11:59:55
2	Does that refer to tracing accounts as you've just	11:57:13	2	a double-up account is?	11:59:59
3	described them, where the money was deposited or	11:57:17	3	A. Taking -- at a time, once we started	12:00:06
4	given to Madoff?	11:57:19	4	to get into doubling-up or leveraged accounts, if we	12:00:11
5	A. Yes.	11:57:20	5	wanted to set up a new account and one of the	12:00:18
6	Q. And then the first line says: "As	11:57:21	6	reasons was when one or more partners had excess	12:00:21
7	planned, I will be breaking all of the Madoff	11:57:24	7	funds that they wanted to invest in Madoff, we might	12:00:26
8	tracing accounts." Then it goes on to say, "All of	11:57:27	8	take that as an opportunity to leverage the account	12:00:30
9	the funds will be deposited in new accounts for each	11:57:30	9	by borrowing an equivalent amount that we were going	12:00:39
10	individual partner with a," quote, "TR designation."	11:57:33	10	to put into the account.	12:00:43
11	A. Yes.	11:57:38	11	As an example, let's say, we'll take	12:00:45
12	Q. What was going on there?	11:57:39	12	Sterling 30. If the partners assembled \$30 million,	12:00:49
13	A. Just as it indicates, rather than	11:57:49	13	wherever they got it from, could have been from	12:00:54
14	having it in one separate tracing account as a	11:57:50	14	another Madoff account, wherever they got \$30	12:00:57
15	combination, this way each partner, having	11:57:53	15	million, if they wanted they could double up. One	12:01:00
16	individual tracing accounts, each partner had	11:57:58	16	of the reasons was, it was understandably going to	12:01:02
17	control. If they indeed didn't care that they	11:58:01	17	stay longer term than if they had money in their own	12:01:06
18	were -- triggered a tax event, and they wanted to	11:58:09	18	account, they could take it out tomorrow. But in	12:01:09
19	use the money that was considered tracing, they had	11:58:11	19	doubling up there was a certain commitment to leave	12:01:13
20	their own individual tracing account. We could	11:58:14	20	it in there longer.	12:01:17
21	identify it, they could use it for whatever they	11:58:17	21	Q. Commitment to whom?	12:01:19
22	want, but to the extent they used it for personal	11:58:20	22	A. Commitment by any of the partners to	12:01:20
23	reasons, there would be a taxable event. Maybe it	11:58:22	23	the doubling-up account. There was an	12:01:22
24	didn't mean anything to them, but in combination	11:58:25	24	understanding -- no written commitment, an	12:01:25
25	with others, if they took out the money --	11:58:28	25	understanding that anything that you put into a	12:01:28

477			479		
1	doubling-up account is not available -- in an	12:01:30	1	imagination. But maybe we intended it to be about	12:04:03
2	emergency, of course you could take the money out.	12:01:35	2	20 and it wound up to be 21 something. We still	12:04:09
3	But --	12:01:38	3	called it Sterling 20.	12:04:13
4	Q. I guess the commitment or the	12:01:40	4	Q. Okay. You had to start with a name.	12:04:15
5	understanding was among the partners?	12:01:41	5	A. Right.	12:04:18
6	A. Yes.	12:01:43	6	Q. So, were you the person that	12:04:18
7	Q. Or with Madoff?	12:01:44	7	negotiated the loan transactions with the bank?	12:04:21
8	A. No. It was among the partners.	12:01:45	8	A. No.	12:04:25
9	Madoff didn't care.	12:01:48	9	Q. Who was involved in the negotiations	12:04:25
10	Q. Because he was getting the money?	12:01:50	10	with the bank?	12:04:28
11	A. Yeah.	12:01:52	11	A. Since Mark Peskin has been with us,	12:04:29
12	Q. So, okay, I didn't mean to interrupt	12:01:53	12	it's been him.	12:04:33
13	you. I just wanted to understand how the double-up	12:01:57	13	Q. Yet you executed many of the	12:04:34
14	concept works.	12:02:01	14	documents on behalf of Sterling 30 as, I think your	12:04:37
15	A. Let me just, I wandered off myself.	12:02:02	15	title was manager?	12:04:40
16	Let's say you assembled \$30 million in that case.	12:02:05	16	A. Well, it was an LLC. I was a	12:04:44
17	You went to the Bank of America and said we want to	12:02:09	17	managing member, is that it?	12:04:48
18	open up a leveraged account and they would lend us	12:02:12	18	Q. I think it just says manager.	12:04:49
19	\$30 million. We would open an account for \$60	12:02:18	19	A. Okay.	12:04:52
20	million, and the earnings would obviously be	12:02:25	20	Q. Do you recall executing documents on	12:04:52
21	increased on that account by the difference between	12:02:30	21	behalf of Sterling 30?	12:04:54
22	the interest rate that we're paying to the bank on	12:02:33	22	A. Yes.	12:04:55
23	borrowing this other \$30 million, offset against the	12:02:36	23	Q. Were you -- Mark Peskin did the	12:04:56
24	Madoff return. So, if the account earned 12	12:02:40	24	negotiations. Were you present during the	12:05:00
25	percent -- if a normal account earned 12 percent, a	12:02:45	25	negotiations with the bank?	12:05:02
478			480		
1	doubling-up or leveraged account would earn 12 plus	12:02:48	1	A. Generally the most significant one	12:05:10
2	percent. As long as Madoff earned more than the	12:02:53	2	was the first one. And once that was done, the	12:05:11
3	interest charged on the loan.	12:02:57	3	others...	12:05:14
4	Q. Which he did, consistently?	12:02:59	4	Q. Was that 10? Was that Sterling 10?	12:05:16
5	A. Yes.	12:03:01	5	A. I think the first one was Sterling --	12:05:19
6	Q. In fact, always? On your double-up	12:03:02	6	well, the first one I think was really Judith Wilpon	12:05:21
7	accounts Madoff always earned more than the interest	12:03:07	7	and Iris Katz, the first one we ever had for	12:05:25
8	charged on the loan?	12:03:09	8	doubling.	12:05:28
9	A. Well, he always earned more than the	12:03:10	9	Q. Oh, for a double-up account?	12:05:28
10	lowest -- he never earned as low an interest rate as	12:03:14	10	A. Yeah. But the first one of this type	12:05:30
11	five, six percent. He always exceeded that.	12:03:19	11	of assembling money was Sterling 30.	12:05:33
12	Q. Now, who -- you mentioned Sterling	12:03:21	12	Q. What do you mean of this type?	12:05:36
13	30, so let's just talk with that one. That was the	12:03:25	13	A. I mean where we just assembled money	12:05:38
14	largest of your double-up accounts, right?	12:03:28	14	of partners. It wasn't an entity, it wasn't an	12:05:40
15	A. Yes.	12:03:30	15	existing entity. It was created, an LLC created for	12:05:43
16	Q. You also had Sterling, what, 25?	12:03:32	16	the purpose of opening up the account.	12:05:47
17	A. Sterling 25, Sterling 10, Sterling	12:03:34	17	Q. Was Sterling -- did Sterling 10 come	12:05:52
18	20, Sterling Tracing.	12:03:38	18	before or after Sterling 30?	12:05:56
19	Q. Were the Sterling 10 and the Sterling	12:03:39	19	A. After.	12:06:00
20	25 -- was there a Sterling 20 as well?	12:03:43	20	Q. And Sterling --	12:06:01
21	A. Pretty sure there was.	12:03:46	21	A. Sterling 30, almost 100 percent	12:06:02
22	Q. Well, whether there was or not. Was	12:03:48	22	certain, aside from the Judy/Iris, was the first of	12:06:06
23	the number 10, 25, 30, was the number reflective of	12:03:51	23	the leveraged accounts, LLC leveraged accounts.	12:06:10
24	the millions of dollars borrowed?	12:03:58	24	Q. So of the ones that have similar	12:06:15
25	A. Generally. We didn't have too much	12:04:00	25	names, Sterling 10, Sterling 25 --	12:06:17

		485			487
1	or describe the Sterling partners' investment	12:12:31	1	page of the chart.	12:16:07
2	strategy as risk adverse?	12:12:35	2	A. Okay. If it was levered, you know, I	12:16:08
3	MS. SESHENS: Object to the form.	12:12:37	3	didn't think so, but it's not a great surprise that	12:16:15
4	A. To some extent, yes. The fact that	12:12:41	4	it was a levered or doubling-up account.	12:16:18
5	the strategy employed by Madoff used puts to protect	12:12:44	5	Q. Okay. All right. Okay, that's all I	12:16:20
6	you on the downside, to that extent, yes. You	12:12:51	6	have for that right now.	12:16:34
7	didn't have any risk, you weren't at risk in the	12:12:55	7	Was the decision to do this	12:16:49
8	stock market.	12:12:57	8	leveraging by borrowing money from a bank for	12:16:54
9	Q. You mentioned yesterday, or maybe the	12:13:02	9	deposit into accounts at Madoff, was that the	12:16:59
10	day before, Sterling Pathogenesis. That was also	12:13:06	10	subject of discussion among the partners prior to	12:17:01
11	a -- was that also a double-up account or leveraged	12:13:11	11	doing it?	12:17:04
12	account?	12:13:15	12	A. Yes, it was. Yes.	12:17:11
13	A. I don't believe so. I'm not	12:13:16	13	Q. Did anyone, did any of the partners	12:17:13
14	absolutely certain, but I don't think so. Could	12:13:19	14	disagree that this was an appropriate or a wise	12:17:18
15	have been.	12:13:22	15	investment strategy?	12:17:26
16	(Exhibit AF-28 marked for	12:13:46	16	MS. SESHENS: Object to the form.	12:17:28
17	identification.)	12:13:52	17	A. I don't recollect anybody	12:17:31
18	MR. LUCCHESI: Dana, I think you'll	12:14:05	18	disagreeing.	12:17:33
19	recognize your letter. Just so I don't have to -- I	12:14:07	19	Q. Was there a separate discussion about	12:17:33
20	thought this was the easiest way to do this. Not	12:14:12	20	doubling-up accounts with respect to each time it	12:17:40
21	trying to make you a witness or anything.	12:14:16	21	was done? In other words, was there a discussion	12:17:46
22	MS. SESHENS: That is okay.	12:14:18	22	for Sterling 30, a separate discussion at the time	12:17:48
23	Q. Exhibit 28 is a June 3rd, 2002 letter	12:14:22	23	you did Sterling 10, et cetera?	12:17:52
24	from your counsel, Dana Seshens, to Baker &	12:14:26	24	A. The only discussion was we are	12:17:55
25	Hostetler. And attached to it is an Exhibit A,	12:14:33	25	opening a Sterling 20. If anybody wants to put any	12:18:01
		486			488
1	which is a chart showing, in the first instance, the	12:14:39	1	money in Sterling 20, it's open now, we intend to go	12:18:07
2	levered, what are called levered accounts, the	12:14:46	2	ahead and close it on X date. That virtually was	12:18:12
3	accounts that are collateralized accounts.	12:14:54	3	the only discussion because there was a voluntary	12:18:20
4	Did you have any -- you can take a	12:15:02	4	thing with all of those accounts, Sterling 20 and so	12:18:25
5	look at that. Did you have a role in putting	12:15:04	5	forth. It wasn't mandatory that you put in any --	12:18:29
6	together this, the information for this chart?	12:15:08	6	that any individual partner put in any money.	12:18:32
7	MS. SESHENS: That's a yes or a no	12:15:12	7	Q. The money that went into the	12:18:35
8	answer.	12:15:14	8	double-up accounts, was there any restriction on	12:18:37
9	MR. LUCCHESI: Yes, that's all I	12:15:15	9	where that money, or limitation on where that money	12:18:41
10	want.	12:15:16	10	could come from?	12:18:44
11	Q. I'm not looking for what you talked	12:15:16	11	A. There was an understood restriction	12:18:49
12	about with counsel or anything else.	12:15:19	12	that you just couldn't borrow it from Sterling	12:18:56
13	A. I don't believe -- I don't believe I	12:15:22	13	Equities Funding to put it in leverage and put it	12:19:00
14	played a part in putting together this schedule, no.	12:15:25	14	into Madoff. That was understood.	12:19:02
15	Q. Do you see on the first page Sterling	12:15:28	15	Q. Could you take it out of an existing	12:19:04
16	Pathogenesis is listed?	12:15:32	16	Madoff account?	12:19:07
17	A. Yes.	12:15:34	17	A. Yes.	12:19:08
18	Q. Do you understand its inclusion among	12:15:37	18	Q. Did anyone do that, to your	12:19:09
19	the other accounts there to be because it was a	12:15:40	19	knowledge?	12:19:14
20	leveraged -- a levered account, leveraged account or	12:15:45	20	A. Yes.	12:19:15
21	a double-up account?	12:15:48	21	Q. Who did that?	12:19:16
22	A. I'm not sure. The title is "Levered	12:15:53	22	A. I for one did it. I think almost	12:19:19
23	Accounts and Accounts With Collateralized Loans."	12:16:00	23	every partner did it.	12:19:24
24	Q. But I think the collateralized loans	12:16:00	24	Q. Okay. So Madoff didn't impose any	12:19:28
25	accounts come later. I think they're on the third	12:16:03	25	restrictions on where the money could come from?	12:19:30

553			555			
1	A.	Just give me a minute.	03:07:29	1	complained that we didn't do anything else with	03:11:48
2	Q.	Oh, sure.	03:07:31	2	them, and this was an opportunity to do more	03:11:51
3	A.	These were notes taken at a meeting	03:08:27	3	business with one of our line banks.	03:11:53
4		prior to setting up the 401(k) plan.	03:08:30	4	Q. What were the reasons that other	03:11:58
5	Q.	Who was present at the meeting?	03:08:35	5	entities gave for not accepting Madoff as a 401(k)	03:12:01
6	A.	From this -- I mean, I have no	03:08:38	6	investment alternative?	03:12:06
7		recollection, but I see that John Webster and Jim	03:08:41	7	A. They didn't know anything	03:12:11
8		Olek were present.	03:08:43	8	particularly about Madoff. They might deal only	03:12:12
9	Q.	Who are they?	03:08:45	9	with companies that could be reported on a daily	03:12:16
10	A.	John Webster was definitely with	03:08:46	10	basis. That's the way they function, that	03:12:22
11		M & T and this looks like Jim Olek was also, I think	03:08:48	11	participants could get their information much more	03:12:27
12		both of them were from M & T.	03:08:54	12	frequently than we would be able to do with Madoff.	03:12:33
13	Q.	Is the 716 area code around New York?	03:08:58	13	And it was just a preference not to have Madoff as	03:12:38
14		Is that a New York area code?	03:09:04	14	one of the options.	03:12:41
15	A.	I don't -- I don't know.	03:09:09	15	Q. Was Madoff not able to report	03:12:42
16	Q.	Was anyone else -- do you think the	03:09:18	16	information on a daily basis?	03:12:45
17		meeting was just between the three of you?	03:09:22	17	MS. SESHENS: Object to the form.	03:12:50
18	A.	I don't think so but there's no	03:09:25	18	A. Yes, Madoff was not equipped to	03:12:52
19		indication of who else was present.	03:09:27	19	report information on a daily basis.	03:12:57
20	Q.	Do you have any recollection of this	03:09:29	20	Q. How do you know that?	03:12:59
21		meeting?	03:09:32	21	A. From -- that was a direct question to	03:13:02
22	A.	A very vague recollection, just	03:09:40	22	them.	03:13:04
23		trying to assemble information about the options	03:09:42	23	Q. That was a direct question to Madoff?	03:13:04
24		available, what decisions had to be made, just the	03:09:45	24	A. Yeah. They didn't know balances on a	03:13:06
25		basics of the plan.	03:09:54	25	daily basis.	03:13:08
554			556			
1	Q.	The meeting looks like it was	03:10:02	1	Q. And who asked that direct question?	03:13:10
2		November 19th, 1996. Does the fact that it was in	03:10:05	2	A. I spoke to Mr. DiPascali at some	03:13:13
3		November of '96 help you with where you were, kind	03:10:14	3	time, some point.	03:13:16
4		of chronologically in your discussions with M & T?	03:10:21	4	Q. In connection with the --	03:13:17
5		In other words, was this the first meeting, was this	03:10:25	5	A. No, not necessarily in connection	03:13:19
6		somewhere in the middle or near the end of when the	03:10:27	6	with 401(k).	03:13:21
7		plan was being set up?	03:10:31	7	Q. That's something that was known to	03:13:23
8	A.	It would be a guess that we would	03:10:33	8	you in 1996 when you were looking for the 401(k) --	03:13:25
9		probably have selected M & T to be the	03:10:38	9	A. Or prior, yes, it was known to me,	03:13:28
10		administrator, to be the custodian, and wanted	03:10:44	10	yes.	03:13:31
11		certain questions answered and to develop more	03:10:46	11	Q. Are you aware that in the loan	03:13:32
12		information.	03:10:51	12	documents for the leveraged accounts, that there is	03:13:34
13	Q.	Did you look at other entities to be	03:10:51	13	an obligation to report the loan, minimum loan	03:13:36
14		the custodian?	03:10:54	14	balance -- not to report, but to be aware of the	03:13:43
15	A.	I don't remember who, but we didn't	03:11:04	15	minimum loan balance and to report on a daily basis	03:13:46
16		just select M & T and not compare them to somebody	03:11:05	16	if the minimum loan balance dips below the	03:13:50
17		else.	03:11:09	17	established minimum threshold?	03:13:54
18	Q.	What was the reason, if you remember,	03:11:10	18	A. I don't recall that being a	03:13:57
19		why M & T was selected over any other potential	03:11:11	19	condition.	03:13:59
20		custodian?	03:11:16	20	Q. You don't recall agreeing to that as	03:13:59
21	A.	There were, as I recall, one or more	03:11:19	21	a condition of the loan?	03:14:04
22		other entities that wouldn't accept Madoff as an	03:11:25	22	MS. SESHENS: You're saying it's an	03:14:06
23		alternative; and another factor was the cost was	03:11:30	23	obligation that Sterling undertook in the loan	03:14:08
24		reasonable. And another fact was the fact that they	03:11:39	24	documents?	03:14:10
25		were one of our line banks and a bank that always	03:11:43	25	MR. LUCCHESI: I'm not saying it's	03:14:10

557			559		
1	Sterling's obligation to give the notice. I'm	03:14:14	1	visibility to account balances, were there any other	03:17:16
2	saying there's -- I said what I said.	03:14:17	2	concerns or issues expressed by the other potential	03:17:21
3	A. I knew that Madoff could not report	03:14:26	3	plan custodians concerning Madoff?	03:17:25
4	on a daily basis to employees.	03:14:27	4	A. Not that I can remember, no.	03:17:32
5	Q. You knew that Madoff did not have	03:14:32	5	Q. Okay. I'm looking at your notes from	03:17:34
6	account information, balance information on a daily	03:14:35	6	the meeting, and looks to me like you were using	03:17:37
7	basis, correct?	03:14:39	7	Roman Numerals to kind of divide things up. Looks	03:17:45
8	MS. SESHENS: Object to the form.	03:14:41	8	like there's a Roman Numeral I and then a Roman	03:17:49
9	A. In all of the options that a lot of	03:14:46	9	Numeral II. Are those Roman Numerals, is that what	03:17:55
10	these companies offered, an employee could go to the	03:14:50	10	that is?	03:17:57
11	Internet and get their fund balance on a daily	03:14:53	11	A. Yes, those are Roman Numerals.	03:17:57
12	basis. I was advised that that couldn't happen with	03:15:01	12	Q. I'm looking at II. And it says:	03:17:59
13	the Madoff option.	03:15:04	13	Trustee directed, dash, all to Madoff, dash, no	03:18:04
14	Q. With all the technology that Madoff	03:15:05	14	choice, dash, less popular, dash, if it	03:18:09
15	had, were you surprised that -- did that surprise	03:15:07	15	underperforms, subject to class action. Let me stop	03:18:16
16	you at the time, cause any concern for you at the	03:15:12	16	there. Do you recall writing those words?	03:18:24
17	time?	03:15:15	17	A. I don't recall writing them but I did	03:18:29
18	A. It didn't cause a concern. We just	03:15:17	18	write them.	03:18:31
19	went on -- if nobody would have accepted Madoff, it	03:15:19	19	Q. Do you know what you were discussing	03:18:32
20	would have been a concern. As long as we had at	03:15:23	20	at that point?	03:18:36
21	least one option, one viable option to select a	03:15:26	21	A. Yes.	03:18:37
22	custodian who would accept Madoff, it wasn't a	03:15:30	22	Q. What?	03:18:38
23	concern.	03:15:34	23	A. The two options that we had in	03:18:39
24	Q. How many potential custodians, other	03:15:34	24	setting up the plan, whether it would be directed by	03:18:42
25	than M & T, do you recall speaking with?	03:15:37	25	the participants or directed by the trustees.	03:18:45
558			560		
1	A. I don't recall.	03:15:42	1	Q. Also, "trustee directed" was your	03:18:52
2	Q. Was it more than one other custodian?	03:15:43	2	reference to whether that is to be directed by the	03:18:59
3	A. I tend to think it might have been	03:15:46	3	trustees?	03:19:04
4	two others, but that's just...	03:15:48	4	A. That's what I would interpret it.	03:19:04
5	Q. Do you recall that M & T was the only	03:15:52	5	I'm reading it as though I saw it for the first	03:19:06
6	other custodian, potential custodian with whom you	03:15:54	6	time.	03:19:10
7	spoke that was willing to accept Madoff as an	03:15:58	7	Q. What is it -- it doesn't mention	03:19:11
8	investment option?	03:16:01	8	employee directed anywhere, right?	03:19:14
9	A. I'm not sure if one other would	03:16:08	9	A. Participant directed would be the --	03:19:20
10	accept it and M & T was a lower fee base. I'm not	03:16:09	10	Q. Oh, that's number one, I'm sorry. I	03:19:22
11	sure.	03:16:17	11	got it. I got it. I'm not trying to be difficult,	03:19:25
12	Q. Do you have notes of, or records of	03:16:18	12	I just didn't get that.	03:19:28
13	some kind that would identify the other entities	03:16:22	13	So first you're talking about	03:19:29
14	with whom you spoke concerning being the custodian	03:16:26	14	participant directed. Then it says, "Trustees must	03:19:31
15	for the employees' 401(k) plan?	03:16:31	15	offer three diverse funds," paren, "usually four."	03:19:35
16	A. I haven't come across any such notes.	03:16:36	16	What does that refer to?	03:19:40
17	Q. Was Michael Katz, to your knowledge,	03:16:47	17	A. Just alternatives that there should	03:19:42
18	present -- he's the other trustee, correct?	03:16:52	18	be at least three or more options for investment.	03:19:45
19	A. Yes.	03:16:55	19	Q. Did somebody tell you that, you had	03:19:53
20	Q. Was he present in any of these	03:16:56	20	to offer three or more?	03:19:57
21	meetings or discussions with potential or about	03:16:57	21	A. These notes that I'm taking from a	03:19:58
22	potential plan custodians?	03:17:01	22	meeting with the two gentlemen.	03:20:03
23	A. I believe so. I'm not -- I believe	03:17:06	23	Q. Did you understand that to be a legal	03:20:04
24	so.	03:17:09	24	requirement?	03:20:07
25	Q. Other than the issue of daily	03:17:13	25	A. I did.	03:20:09

		569			571
1	Did any of the partners review, on a	03:31:17	1	asked you about different diligence efforts that you	03:35:04
2	regular basis, either their account statements from	03:31:20	2	undertook with respect to Madoff and you've	03:35:07
3	Madoff or their confirmation, trade confirmations	03:31:24	3	responded to my questions. And I won't go back and	03:35:10
4	that may relate to their own accounts, or accounts	03:31:29	4	the record is what it is. But just a general	03:35:16
5	that they had interest in?	03:31:34	5	question for you. Is there any diligence that you	03:35:19
6	A. Any of their regular accounts, have	03:31:39	6	undertook with respect to Madoff that you have not	03:35:22
7	they reviewed their statement?	03:31:41	7	told me about?	03:35:27
8	Q. Did they review -- let me back up.	03:31:43	8	A. First of all, if I've forgotten, if I	03:35:38
9	My understanding is you received all	03:31:46	9	forgot the past few days I still don't recall now.	03:35:43
10	the statements and all the trade confirms. Is that	03:31:48	10	I don't remember if I mentioned many factors,	03:35:49
11	correct?	03:31:52	11	including the fact of Madoff's status, his	03:35:58
12	A. That's correct.	03:31:52	12	reputation, the fact that he was, information that I	03:36:01
13	Q. Do you know whether Madoff also sent	03:31:57	13	came across, that he was on a short list to be the	03:36:11
14	statements or trade confirms to any of the other	03:31:59	14	chairman of the SEC, that he started the NASDAQ, he	03:36:14
15	partners, the Sterling partners, in connection with	03:32:02	15	was the president of NASDAQ, he was highly	03:36:20
16	their investments in Madoff, either duplicates of	03:32:06	16	respected, highly regarded. I don't know if I	03:36:22
17	what you received or accounts that you had nothing	03:32:09	17	mentioned that to any extent --	03:36:27
18	to do with?	03:32:13	18	Q. You actually did. That's okay.	03:36:29
19	A. I don't believe that the partners	03:32:13	19	A. Well, fine. It's worth repeating.	03:36:33
20	received their own separate accounts, their own	03:32:15	20	Q. I'm sure it is.	03:36:35
21	separate statements.	03:32:20	21	A. It was in a sense due diligence,	03:36:38
22	Q. Or trade confirmations?	03:32:20	22	anything read. Yes, there were some negative	03:36:40
23	A. Or trade confirmations.	03:32:23	23	things, too, but...	03:36:43
24	Q. Did any of the partners come to you	03:32:24	24	Q. Did those facts that you were aware	03:36:45
25	on a regular basis and say, yeah, I want to review	03:32:29	25	about Mr. Madoff and his reputation in the industry,	03:36:47
		570			572
1	my own account statements or I want to review the	03:32:32	1	did that cause you to look at him less critically	03:36:50
2	trade confirmation tickets that relate to my	03:32:36	2	than you would have looked at somebody that didn't	03:36:55
3	investments?	03:32:40	3	have such a reputation? Is that what you're	03:36:57
4	A. Not that I can recall.	03:32:41	4	suggesting?	03:37:00
5	Q. Now, you became the Trustee of the	03:33:16	5	A. Yeah, I would say that offered a	03:37:01
6	401(k) in 1997. Did you do any additional diligence	03:33:18	6	great deal of comfort, yes.	03:37:02
7	on Madoff as a potential investment, in connection	03:33:26	7	Q. Anything else you can think of? You	03:37:06
8	with assuming the fiduciary duties of a trustee to a	03:33:31	8	had in fact mentioned those things.	03:37:08
9	401(k) plan?	03:33:36	9	A. Okay, I'm glad I did.	03:37:11
10	A. No.	03:33:38	10	Q. That's okay.	03:37:13
11	Q. To your knowledge did Michael Katz do	03:33:39	11	A. Again, if I may have forgotten	03:37:15
12	any diligence in connection with his role as a	03:33:41	12	something in the past few days --	03:37:19
13	trustee and the associated fiduciary duties to the	03:33:43	13	Q. It's still forgotten?	03:37:20
14	401(k) plan participants?	03:33:48	14	A. -- it's still under the heading of	03:37:22
15	A. No. Understand at that time we had	03:33:51	15	forgotten.	03:37:26
16	been dealing with Madoff for some 11 years and a	03:33:55	16	Q. You've only got to bear with me for	03:37:46
17	great deal of money invested. It would seem a bit	03:33:58	17	another 21 minutes.	03:37:51
18	strange or unnecessary to do further diligence. We	03:34:08	18	A. Very precise.	03:37:54
19	already were investing significant amounts of our	03:34:13	19	Q. Because I have to leave right at 4.	03:37:55
20	money and other people's money and now there was	03:34:16	20	I've got to pack up my office and go.	03:37:58
21	understood a fiduciary duty, but we felt very	03:34:22	21	(Comments off the record.)	03:38:19
22	comfortable and we knew quite a bit, perhaps more	03:34:26	22	Q. Are you familiar with another Ponzi	03:38:40
23	than we would know if this was the first we dealt	03:34:33	23	scheme that involved an entity named Bayou,	03:38:44
24	with Madoff and did thorough due diligence.	03:34:36	24	B-a-y-o-u?	03:38:51
25	Q. Now, for the last several days I've	03:35:00	25	A. I have some knowledge of it.	03:38:52

577			579				
1	Q.	It was not you?	03:46:45	1	Q.	So is it fair to say you discounted	03:49:49
2	A.	No.	03:46:46	2		his view, because you didn't think it was objective?	03:49:52
3	Q.	Do you know the reasons why, with	03:46:46	3	A.	That's one of the reasons, yes.	03:50:02
4		respect to Bayou, Sterling Stamos, as you said, was	03:46:48	4	Q.	What other reasons?	03:50:03
5		uncomfortable with Bayou and had withdrawn money	03:46:54	5	A.	The only danger that he put forth was	03:50:06
6		sometime before the Bayou scam was exposed?	03:46:58	6		that if anything ever happened, and he didn't really	03:50:11
7	A.	It was reported, but I don't -- I	03:47:05	7		get into any reason that anything should happen, a	03:50:14
8		wouldn't want to test my recollection of exactly	03:47:08	8		problem with Sterling, that Sterling might	03:50:21
9		what it was.	03:47:11	9		encounter, would be if accounts were frozen and	03:50:27
10	Q.	It was reported where, in the	03:47:12	10		while any kind of -- if they started to look into	03:50:33
11		partners' meetings?	03:47:14	11		Madoff's operation -- again, not saying that they'd	03:50:36
12	A.	In the partners' meetings.	03:47:15	12		find anything, but just saying, just creating a fear	03:50:39
13	Q.	Would it be reflected in the minutes	03:47:17	13		of just an investigation. And our accounts were	03:50:45
14		of the partners' meetings?	03:47:19	14		frozen, would we -- and at the same time the banks	03:50:51
15	A.	It might. It might.	03:47:21	15		said, well, pay us the money, you're in default, we	03:50:54
16	Q.	Is it fair to say that you don't have	03:47:27	16		might have a problem.	03:50:59
17		a specific recollection of any red flags or concerns	03:47:30	17		So that was the only -- that was the	03:51:00
18		that Sterling Stamos identified in connection with	03:47:37	18		basis of his warning, we'll say, or saying that you	03:51:02
19		pulling investment out of Bayou?	03:47:42	19		should have less money. Again, not that he could	03:51:08
20		MS. SESHENS: Object to the form.	03:47:46	20		point to and say there's something wrong or an	03:51:12
21	A.	My recollection was that it just, the	03:47:49	21		investigation would turn up anything wrong. Just	03:51:15
22		information it received was -- didn't qualify them	03:47:54	22		that if there were an investigation and if the money	03:51:20
23		to be something that they would want to be invested	03:48:00	23		was tied up, then we might run into a problem.	03:51:22
24		in. Nothing, as I recall, anything illegal or, as I	03:48:04	24	Q.	Now, do you recall Mr. Stamos issuing	03:51:26
25		said before, no kind of Ponzi scheme or anything	03:48:09	25		this warning and this advice -- you certainly recall	03:51:29
578			580				
1		like that.	03:48:12	1		it being after the Sterling Stamos fund was created,	03:51:35
2	Q.	Was there any, ever any discussion	03:48:12	2		correct?	03:51:40
3		between Sterling -- representatives of Sterling and	03:48:15	3	A.	Yes.	03:51:40
4		Peter Stamos about Madoff as an investment	03:48:19	4	Q.	So it was after 2002?	03:51:41
5		opportunity?	03:48:25	5	A.	Yes.	03:51:43
6	A.	Between Sterling and Peter Stamos?	03:48:29	6	Q.	Assuming that's the right date.	03:51:44
7	Q.	Yes.	03:48:33	7		Can you give me more of a time frame	03:51:46
8	A.	Yes.	03:48:33	8		for that? Bayou filed Chapter 11 in May of 2005 and	03:51:49
9	Q.	Tell me about those discussions.	03:48:33	9		then sued Sterling Stamos in September of 2005. I	03:51:59
10	A.	Peter Stamos expressed an opinion	03:48:40	10		don't know if that, if it was around that time	03:52:04
11		that Bernie Madoff was not transparent. That was	03:48:45	11		period?	03:52:09
12		his, quote, objection. And he advised us, or he was	03:48:52	12	A.	I think it was before 2005.	03:52:09
13		of the opinion that we shouldn't have as much money	03:49:08	13	Q.	Okay. Do you know if anything --	03:52:11
14		in Madoff as we do, as we did at the time.	03:49:14	14		strike that.	03:52:18
15	Q.	At the time, this was before the	03:49:19	15		Other than the transparency issue and	03:52:19
16		formation of the Sterling Stamos fund?	03:49:21	16		the consequences of a freeze on the accounts that	03:52:21
17	A.	No, no.	03:49:24	17		you've described, and what you've told me just now,	03:52:25
18	Q.	After?	03:49:25	18		is there anything else that you recall Peter Stamos	03:52:28
19	A.	That was in existence.	03:49:25	19		saying about Madoff and Madoff as an investment	03:52:32
20	Q.	When did he render that advice?	03:49:26	20		opportunity?	03:52:39
21	A.	I don't remember the time, but I	03:49:30	21	A.	No.	03:52:40
22		remember thinking the natural thought, that, yes, if	03:49:31	22	Q.	Who else -- was this a conversation	03:52:45
23		these were our two major sources of investment,	03:49:39	23		with Mr. Stamos that you're relating the details of?	03:52:47
24		then, sure, he would like us to take some money out	03:49:42	24	A.	No. I think this was a report at a	03:52:57
25		of Madoff and no doubt put it into his firm.	03:49:46	25		partners' meeting.	03:52:59

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,	Rule 2004
v.	Examination of:
BERNARD L. MADOFF INVESTMENT SECURITIES, LLC,	ARTHUR FRIEDMAN
Defendant.	(Volume IV)

-----x

In Re:

BERNARD L. MADOFF,

Debtor.

-----x

TRANSCRIPT of testimony as taken by and before
NANCY C. BENDISH, Certified Court Reporter, RMR, CRR
and Notary Public of the States of New York and New
Jersey, at the offices of Baker & Hostetler, 45
Rockefeller Plaza, New York, New York on Tuesday,
June 29, 2010, commencing at 10:05 a.m.

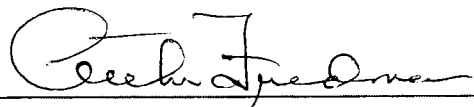
BENDISH REPORTING, INC.
Litigation Support Services
877.404.2193
www.bendish.com

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

JURAT

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

PAGE	LINE	CORRECTION
SEE ATTACHED	EXHIBIT A	




 ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

NOTARY PUBLIC:



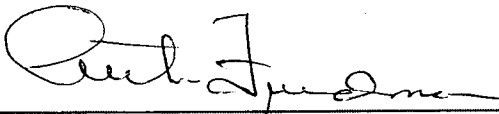
URSULA M. MIKA
 NOTARY PUBLIC, STATE OF NEW YORK
 No 01MI6216250
 QUALIFIED IN QUEENS COUNTY
 COMMISSION EXPIRES JANUARY 11, 2014

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

JURAT

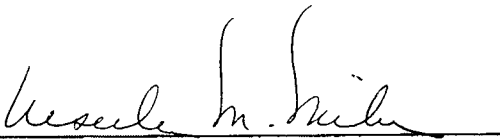
I, ARTHUR FRIEDMAN, do hereby certify that I have read the foregoing transcript of my testimony taken on June 23, 2010, and have signed it subject to the following changes:

PAGE	LINE	CORRECTION
SEE ATTACHED	EXHIBIT A	



 ARTHUR FRIEDMAN

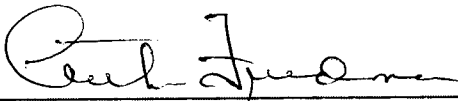
Sworn and subscribed to before me on this day of September 28, 2010

NOTARY PUBLIC: 

JURAT

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

PAGE	LINE	CORRECTION
SEE ATTACHED	EXHIBIT A	

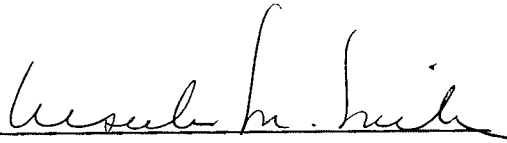


 ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

NOTARY PUBLIC:



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

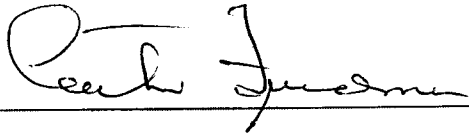
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

JURAT

I, ARTHUR FRIEDMAN, do hereby certify that I have read the foregoing transcript of my testimony taken on June 29, 2010, and have signed it subject to the following changes:

PAGE	LINE	CORRECTION
SEE ATTACHED EXHIBIT A		

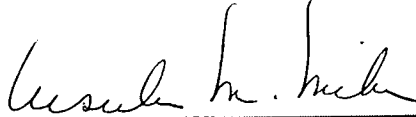


ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

NOTARY PUBLIC:



URSULA M. MIKA
NOTARY PUBLIC, STATE OF NEW YORK
No.01M16216250
QUALIFIED IN QUEENS COUNTY

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
6	6	proceedings. a new deposition under Rule 27 of the	proceeding, a new deposition under Rule 27 of the	Grammatical error
16	16	president of finance, and assisted him in every way	president of finance, and I assisted him in every way	Transcription error
17	24	medical journals, which, while I was there were sold	medical journals, which, while I was there, were sold	Grammatical error
27	3	As a matter of fact, did some work for them while I	As a matter if fact, I did some work for them while I	Transcription error
29	10	Lester Osterman or Tom -- T. Lester Osterman. There	Lester Osterman or Tom -- L. Thomas Osterman. There	Transcription error
31	4	programs, anything to do with computers.	computers, anything to do with computers.	Transcription error
35	4	opposite. It's option to sell a security at a fixed price,	opposite. It's an option to sell a security at a fixed price,	Grammatical error; Transcription error
35	5	with a designated maturity date. In simplest	with a designated maturity date, in simplest	Grammatical error
37	22	Sterling Entities. Sterling Equities	Sterling Equities. Sterling Equities	Transcription error
38	20	company, I should say. It employed all of the	company, I should say. It employs all of the	Grammatical error
38	23	performed by its employees are done really on behalf	performed by its employees is done really on behalf	Grammatical error
39	9	No, that was the company that was	No, that was the company where I was	Grammatical error; Transcription error
39	15	senior, are those two different titles?	senior vice president. Are those two different titles?	Transcription error
40	23	is broken into each real estate property has its own	is broken into - each real estate property has its own	Grammatical error
42	12	that, but for this part, there is several different	that, but for this part, there are several different	Grammatical error
43	12	Sterling entity or partners. And then we would,	Sterling entities or partners. And then we would,	Grammatical error
47	24	Such as somebody vessels. We	Such as Sterling vessels. We	Transcription error
52	18	interest on that account, on that accounts, payable	interest on that account, payable	Transcription error
52	20	Converse, if one of the real estate	Conversely, if one of the real estate	Transcription error
53	18	Manages, the gatekeeper, if you	Manager, the gatekeeper, if you	Grammatical error
54	9	frequently. So it was partners but sometimes the	frequently. So it was partners, but sometimes the	Grammatical error
56	6	Equity Funding?	Equities Funding?	Grammatical error
56	17	There was banks that we had agreements with, lending	There were banks that we had agreements with, lending	Grammatical error
57	17	will, in account with Madoff?	will, in an account with Madoff?	Transcription error
58	17	account. It was practical to break that account and	accounts. It was practical to break that account and	Grammatical error
59	8	money coming out of Sterling Funding to go into	money coming out of Sterling Equities Funding to go into	Transcription error
64	5	partners on the Sterling entity? determination made at outset.	partners of the Sterling entity? determination made at the outset.	Transcription error
69	3	Whether that was an	Whether that was an	Transcription error
69	21	Madoff, or it may be an administrative, requiring	Madoff, or it may be administrative, requiring	Transcription error
71	10	Part of the Fund system?	Part of the farm system?	Transcription error
79	20	structured today, there is the accounting functions,	structured today, there is the accounting function,	Grammatical error
86	7	about. And if there was any involvement. I really	about and if there was any involvement.	Grammatical error

SIPC v. BLMIS No. 08-01789-BR:
Rule 2004 Examination of Arthur Friedman
EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
88	16	involved with Ann, who's the director of human	involved with Anne, who's the director of human	Grammatical error
89	4	Yes. But always with assistance of	Yes. But always with the assistance of	Transcription error
89	21	Do now, no.	Do I know? No.	Transcription error
90	9	least 15 years ago, the structure, took on a	least 15 years ago, the company took on a	Transcription error
91	15	functions, to relieve -- going way back, I was,	functions, to relieve me -- going way back, I was,	Transcription error
92	19	Forgot the name of the firm, but it's	I forgot the name of the firm, but	Transcription error
99	15	your "in" box, an email in your "in" box, will it	your inbox, an email in your inbox, will it	Transcription error; Grammatical error
102	7	didn't get it, of Sterling Stamos, which was a	are going to get to it, Sterling Stamos, which was a	Transcription error
112	10	where we owned 575 Fifth Avenue, which we don't own	when we owned 575 Fifth Avenue, which we don't own	Transcription error
112	14	Corvettes, I don't know if you remember that.	Korvettes, I don't know if you remember that.	Grammatical error
114	15	believe we had a -- that that was audited, Sterling	believe we had a company that audited Sterling	Transcription error
115	19	guess would describe Sterling Equity Associates and	guess would describe Sterling Equities Associates and	Transcription error
115	20	Sterling Equity Funding, if that's the case it's	Sterling Equities Funding, if that's the case it's	Transcription error
116	16	person or people prepare bank reconciliation,	person or people prepare bank reconciliations,	Grammatical error
119	7	Do we know how Fred Wilpon knew	Do you know how Fred Wilpon knew	Grammatical error
126	8	Gains were virtually flat.	Gains or virtually flat	Transcription error
128	19	Oftentimes I would do it, yes.	Often times I would do it, yes.	Grammatical error
132	13		by buying puts	Transcription error
142	17	speaking to the partner.	speaking to the partners.	Grammatical error
148	2	did explain me within Sterling.	did explain it to me within Sterling.	Transcription error
148	20	The word that we used, in the market	The word that we used, "in the market,"	Grammatical error
150	8	Sterling or individually, did you dealing with other brokerage firms?	Sterling or individually, did you deal with other brokerage firms?	Transcription error
155	11	in for planning purposes could be any number of	in, for planning purposes - could be any number of	Grammatical error
164	2	questioning how he does it, and some lauding for	questioning how he does it, and some lauding him for	Transcription error
173	9	Do you recognize the next two pages	Do you recognize the next two pages?	Grammatical error
173	10	looks like it's the same basic page with some	Looks like it's the same basic page with some	Grammatical error
182	1	then there was a few that were just not KW, they	then there were a few that were just not KW, they	Grammatical error
183	5	connected Travelers, I think he was connected to	connected to Travelers, I think he was connected to	Grammatical error
190	14	about it perhaps rather than what he said before,	about it perhaps; rather than what he said before,	Grammatical error
192	8	Not to me direct no. To somebody in	Not to me directly no. To somebody in	Grammatical error
193	22	Why do you think Mike was the other	Why do you think Michael was the other	Transcription error

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
207	7	break, whatever you guys do. Let's go off the	break, whatever you guys want to do. Let's go off the	Transcription error
213	10	That was Madoff Realty Associates was our internal	That was Madoff Realty Associates, our internal	Transcription error
232	6	No, I don't have a recollection of at	No, I don't have a recollection of any at	Transcription error
240	22	Polk & Wardwell, LLC I'm here with my colleague,	Polk & Wardwell, LLP I'm here with my colleague,	Transcription error
240	23	Karen Wagner, and Greg Nero Sterling Equities, on	Karen Wagner, and Greg Nero of Sterling Equities, on	Transcription error
254	6	Wilpons and the Madoffs vacations together?	Wilpons and the Madoffs vacation together?	Grammatical error
254	23	talking about their personal assets. -- do the	talking about their personal assets. Do the	Grammatical error
257	6	initiated, periodically when there was excess funds	initiated, periodically when there were excess funds	Grammatical error
257	10	open a new account and somebody would say, We're	open a new account and somebody would say, "we're	Grammatical error
257	11	opening a new account. And there would be a memo	opening a new account." And there would be a memo	Grammatical error
257	18	funding, for example, wherever there might be or	Funding, for example, wherever there might be or	Grammatical error
259	4	deviations from those two matters of obtaining	deviations from those two matters of obtaining an	Transcription error
260	16	that recognized and entitled to such by the IRS.	that is recognized and titled as such by the IRS.	Transcription error
262	16	Madoff had purported to make you a shareholder of	Madoff had purported to make you a shareholder	Transcription error
265	9	that he was spending all the time on this taxes for	that he was spending all this time on taxes for	Grammatical error
272	3	Particularly since Mr. Katz' other partners belonged	Particularly since some of Mr. Katz's other partners belonged	Transcription error; Grammatical error
272	5	seemed strange that you singled him out	seemed strange that he singled him out	Transcription error
279	20	that I received the call from Bernie very --	that I received a call from Bernie very --	Transcription error
280	19	I don't know that he answered me the	I don't know that he asked me the	Transcription error
283	19	consulted in on whatever decisions had to be made,	consulted on whatever decisions had to be made,	Transcription error
283	23	partners' meetings that take place every Tuesday	partners' meetings that take place every other Monday	Transcription error
285	23	reproduced to the trustee's counsel. This is all	reproduced to the trustee's counsel - this is all	Grammatical error
285	24	laid out in correspondence in the same form that	laid out in correspondence - in the same form that	Grammatical error
286	2	productions and wholesale. There has been a request	productions and reproduced wholesale. There has been a request	Transcription error
289	3	Sterling Group Of Companies and the Sterling	Sterling group of companies and the Sterling	Grammatical error
305	1	So You -- Just point of information,	So you -- Just point of information,	Grammatical error
308	23	I really can't say for certainty.	I really can't say for certain.	Grammatical error
309	1	So I can't say for certainty.	So I can't say for certain.	Grammatical error
309	13	brochure or when you received the -- Yeah. -- the	brochure or when you received the -- the	Transcription error; Grammatical error

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
321	3	account, I just want to make sure it's a part of	accounts, I just want to make sure it's a part of	Grammatical error
325	6	equity's percentage at some point.	Equities percentage at some point.	Grammatical error
326	20	Sterling Equities funding.	Sterling Equities Funding.	Grammatical error
334	3	the only one whose associate security number is on the	the only one whose social security number is on	Transcription error
334	7	your associate security number?	your social security number?	Transcription error
334	10	and Ruth Friedman. You would use my associate	and Ruth Friedman. You would use my social	Transcription error
338	9	"treats". I use the language as though he actually	"buy". I use the language as though he actually	Transcription error
353	6	just a good idea which nobody disagreed with, to	just a good idea, which nobody disagreed with, to	Grammatical error
353	25	had discussions with IV Management	had discussions with Ivy Management	Transcription error
355	6	be in instances money was removed from Madoff into	be that in instances money was removed from Madoff and put into	Transcription error
357	16	look forward to Account 218, You would see it's the	look forward to account 218, you would see it's the	Grammatical error
358	2	There's certain analysis that we did -- we did not	There's certain analyses that we did -- we did not	Grammatical error
358	7	Mets. -- or was there a business reason for backing	Mets -- or was there a business reason for backing	Grammatical error
364	5	I don't remember giving a thought,	I don't remember giving it a thought,	Transcription error
365	21	taking us too long to get your account into the	taking us too long to get your accounts into the	Grammatical error
366	15	can see a lot of the LLC accounts which were talking	can see a lot of the LLC accounts which we're talking	Grammatical error
366	21	Ray had \$30 million to invest and then borrowed	They had \$30 million to invest and then borrowed	Transcription error
367	16	Okay. "Whereas a collateralized account," did you use that phrase	Okay. Whereas a collateralized account, did you use that phrase to	Grammatical error
367	17	to mean accounts	mean accounts	Grammatical error
368	2	indicated -- I don't know if it was he. -- we	indicated -- I don't know if it was he -- we	Grammatical error
372	4	others? I don't know if I interrupted you. You had	investers? I don't know if I interrupted you. You had	Transcription error
372	8	law that passed about laundering money. -- there	law that passed about laundering money -- there	Grammatical error
372	9	was more restrictions placed at that time from that	were more restrictions placed at that time from that	Grammatical error
380	15	say to outsiders?	say two outsiders?	Grammatical error
380	16	To outsiders, yes.	Two outsiders, yes.	Grammatical error
380	19	believe we did that. To partners perhaps, just to	believe we did that. Two partners perhaps, just to	Grammatical error
382	7	someone within the Sterling Group Of Companies as	someone within the Sterling group of companies as	Grammatical error
383	5	No. I'm talking about the letter	No. I'm talking about the lines of credit	Transcription error
383	6	the regular Sterling Equities funding borrowing	the regular Sterling Equities Funding borrowing	Grammatical error
384	18	partners that they obtain other insurance.	partners that they obtained other insurance.	Grammatical error
444	6	It was either AF et al. or SPK et al. I used	It was either AF et al. or SBK et al. I used	Transcription error
399	25	computer, at the bottom there is tabs 1, 2, 3, 4, et	computer, at the bottom there are tabs 1, 2, 3, 4, et	Grammatical error

SIPC v. BLMIS No. 08-01789-BR:
Rule 2004 Examination of Arthur Friedman
EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
409	9	name of the account. If it were L. Thomas Osterman,	name of the account. If it were L. Thomas Osterman	Grammatical error
409	10	et al. tenants-in-common, that's the way the check	et al., tenants-in-common, that's the way the check	Grammatical error
410	15	check made out to Osterman et al., tenant-in-common	check made out to Osterman et al., tenants-in-common	Grammatical error
410	20	and then have checks to each partner and their	and then have checks to each partner in their	Transcription error
411	21	a tenant-in-common? Talking about individual record	a tenant-in-common? Talking about an individual record	Transcription error
412	18	she would write.	she would write them.	Transcription error
417	4	knew there was going to be distributions,	knew there were going to be distributions,	Grammatical error
417	7	company, but group itself.	company, but the group itself.	Transcription error
417	11	it was few and far between, because it is --TIC is	it was few and far between, because it is -- a TIC is	Transcription error
417	12	either not an entity unto itself, it's just a	either is not an entity unto itself, it's just a	Transcription error
417	20	they had any TICs had a checking account, they would	they had -- any TICs had a checking account, they would	Grammatical error
421	9	Other than a guy name Klein --	Other than a guy named Klein	Grammatical error
425	8	just how is it defined, passed the information on	Just how is it defined, I passed the information on	Transcription error
425	12	Yeah, speak to him directly, one on	Yeah, to speak to him directly, one on	Transcription error
434	11	Provide property insurance for the	They provide property insurance for the	Transcription error
439	13	would have been, if it wasn't asked. But, on the	would have been, if it was asked. But, on the	Transcription error
462	6	work under Christopher Lovely. It's Lisa Belli,	work under Christopher Lovely. It's Lee Cibelli,	Transcription error
462	7	Lisa Belli is the bookkeeper who is now, still with	Lee Cibelli is the bookkeeper who is now, still with	Transcription error
464	8	Mr. Koufax in to the Madoff?	Mr. Koufax into Madoff?	Transcription error
466	1	yesterday, the larger accounts the efficiency factor	yesterday, for the larger accounts the efficiency factor	Transcription error
472	24	that otherwise would be taxable, if it were used for	that otherwise would be taxable, if it was used for	Grammatical error
477	17	You went to the Bank of America and said we want to	You went to Bank of America and said we want to	Transcription error
478	13	30, so let's just talk with that one. That was the	30, so let's just talk about that one. That was the	Transcription error
486	24	But I think the collateralized loans	But I think the collateralized loan	Grammatical error
506	22	if there were particularly good months and there was	in there were particularly good months and there were	Grammatical error
510	15	one of the first, aside from Judy and Iris accounts,	one of the first, aside from the Judy and Iris accounts	Transcription error
513	22	pages of this document, seem to be an email	page of this document, they seem to be an email	Transcription error
515	24	that there had to be sometimes exchange of	there had to sometimes be an exchange of	Transcription error
523	16	the month did, or we could go on, was the numbers	the month did, or we could go on, were the numbers	Grammatical error
523	22	of what the return was as at the date that I was	of what the return was as of the date the date that I was	Transcription error
536	4	was no changes made by Madoff, but that's only an	were no changes made by Madoff, but that's only an	Grammatical error

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
540	19	resisting to it, resistance to it in any way?	resisting it, resistance to it in any way?	Transcription error
543	7	an hour later or next day, I don't recall	an hour later or the next day, I don't recall	Transcription error
545	8	There was a quarterly account that	There was a quarterly accounting that	Transcription error
556	6	with 401(k)	with the 401(k)	Transcription error
560	21	These notes that I'm taking from a	These are notes that I'm taking from a	Transcription error
569	5	that they had interest in?	that they had an interest in?	Transcription error
574	14	with being a Ponzi scheme or any kind of fraudulent	with it being a Ponzi scheme or any kind of fraudulent	Transcription error
576	25	clearly in, and David Katz.	clearly involved, and David Katz.	Transcription error
604	17	There were also other checking that	There was also other checking that	Grammatical error
604	19	do with certain Quicken operations where they	do with me -- certain Quicken operations	Transcription error
613	9	Just enabled us to -- this was a	It just enabled us to -- this was a	Transcription error
615	5	might have been some general instruction to dispose	there might have been some general instruction to dispose	Transcription error
620	14	as performing those functions	in performing those functions	Transcription error
622	6	occur among others and reported back to you?	occur among others and were reported back to you?	Grammatical error
626	24	transfer funds, anybody, partners wanted to invest	transfer funds if anybody, partners whated to invest	Transcription error
628	15	There was some funds that were	There were some funds that were	Grammatical error
638	10	were ensued.	ensued.	Transcription error
641	4	I show you what's been marked as	I'll show you what's been marked as	Transcription error
655	19	could be opened retroactive January 2000?	could be opened retroactive to January 2000?	Transcription error
655	21	of keeping records. Nobody is -- IRS nor anybody	of keeping records. Nobody is -- the IRS nor anybody	Transcription error
656	21	with his relationship with the daughter, with his	was his relationship with the daughter, with his	Transcription error
681	2	extent it is based on legal advise, we will call it	extent it is based on legal advise, we will claw it	Transcription error
681	23	clawbacks or in the context of the Bayou case?	clawbacks in the context of the Bayou case?	Transcription error
682	13	statement made by the Trustee. There was a lot	statements made by the Trustee. There was a lot	Grammatical error
684	4	nephews a partnership Bon-Mick --	nephews a partnership, Bon-Mick --	Grammatical error
686	19	accounts. There were withdrawals. It would all	amounts. There were withdrawals. It would all	Transcription error
690	11	his answer. Were you finished?	with his answer. Were you finished?	Transcription error