

EXHIBIT J

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

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

-----x
SECURITIES INVESTOR PROTECTION
CORPORATION,

Videotaped

Plaintiff-Applicant,
v.

Rule 2004
Examination of:

BERNARD L. MADOFF INVESTMENT
SECURITIES, LLC,
Defendant.

ARTHUR FRIEDMAN

(Volume I)

-----x
In Re:

BERNARD L. MADOFF,

Debtor.

-----x

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

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1 A. Same for the Brooklyn Cyclones.

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

4 A. Yes. Single A.

5 Q. Single A?

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

8 Q. Is it affiliated with the Mets?

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

10 Q. Part of the Fund system?

11 A. Yes.

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

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

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

21 A. No. No.

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

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

8 A. With regard to Bernard Madoff?

9 Q. Yes.

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

22 So, in every sense I was the liaison.

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

25 A. From, to my recollection, from day

1 Q. Are you aware of the reasons the
2 decision was made?

3 A. I would have to say that the reasons
4 were the same as why I put my money in Madoff, why
5 all of the entities, 200 plus accounts were opened
6 at Madoff, they were all the same reasoning.

7 Q. Which was what?

8 A. It was deemed to be an excellent
9 place to invest your money. The returns were very
10 satisfactory and you could easily get your money out
11 of the investment. It was a very liquid investment.
12 It was, in every sense, a good place to invest.

13 Q. I guess -- it appears to me, from
14 looking at the records, that some of the Sterling
15 entities had accounts with Madoff, and others did
16 not. Is that --

17 A. Some of the -- when you say --

18 Q. I'm sorry. Some of the Sterling
19 entities opened up accounts with Madoff and put
20 money in, and other Sterling entities did not open
21 up accounts at Madoff. Is that your understanding
22 as well?

23 A. Yes.

24 Q. Why -- and I guess what I'm trying to
25 understand is why, if it was a good, safe place to

1 invest with a good return and easy to get your money
2 out, why did some entities open accounts at Madoff
3 but not others?

4 A. Any account -- any entity that had,
5 by its nature of the operation, accumulated funds
6 and had to invest them, they were invested in
7 Madoff. Most entities that were profitable and
8 accumulated funds would make a distribution to the
9 partners, who then would, more than likely, invest
10 their money in Madoff.

11 So, ultimately, one way or another,
12 it would seem that all of the entities that
13 accumulated any kind of funds, if they were going to
14 invest it any place, there would be a likelihood of
15 it being invested in Madoff.

16 Q. So what you're telling me, I think,
17 is that -- I guess I'm not sure. Are you telling me
18 that entities that by their nature accumulated
19 funds, like a parking garage, they'd have daily
20 revenue, right, that it would be likely that that
21 entity would open an account with Madoff?

22 A. If there was a reason for the
23 accumulation, then, yes, and so they therefore
24 wanted to save the money in one place rather than
25 going to the bank on the corner or a broker, the

1 election was made to invest it in Madoff. If there
2 was no need to accumulate a fund, then chances are
3 it would be distributed to the partners.

4 Q. And then, as you said, they would
5 likely put the money back in?

6 A. Whatever they did, if they were going
7 to save money, this was the, one of the receptacles
8 of choice, as was any of the other investments that
9 we have touched upon. We haven't talked about
10 Sterling Stamos, that was an investment opportunity,
11 American Securities, or a partner could elect not to
12 save the money. None of the partners really have
13 any boats, but if they wanted -- if that were the
14 case and they were into that...

15 Q. It's their money.

16 A. Generally it's their money.

17 Q. Now, did you view the Madoff
18 account -- now, we know Madoff was a broker, right?

19 A. Madoff was?

20 Q. Was a broker?

21 A. Yes.

22 Q. Did you view him as, not as a
23 brokerage account, or did you view it as a bank
24 account?

25 A. It was viewed as a brokerage account.

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

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

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

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

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

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

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

25 MS. SESSENS: At the time he joined?

1 MR. LUCCHESI: Yes.

2 Q. At the time you joined, did you have
3 an understanding of Madoff, Bernie Madoff's
4 investment strategy?

5 A. At that initial time, no. It was
6 explained to me very early on what his strategy was.

7 Q. Okay. And who explained that to you
8 very early on?

9 A. I don't really recollect who.

10 Q. Was it someone at Sterling or was it
11 Mr. Madoff himself?

12 A. No, it was somebody at Sterling.

13 Q. Were you tasked at any time with
14 doing any due diligence into Madoff, in connection
15 with investments that were either made or
16 contemplated to be made by the Sterling entities?

17 A. I did a certain amount of diligence.
18 It was a question -- I don't recollect if, to what
19 extent it was assigned to me, advised, requested,
20 suggested or, in some cases where I just did it on
21 my own to do due diligence.

22 Q. It's hard to say sometimes.

23 A. Due diligence. Got it out.

24 Q. Do you recall what diligence you did
25 with respect to Madoff?

1 A. I recall in the very early stages
2 actually tracking market prices. In other words,
3 when we first were invested, we did not invest in
4 index puts and calls. We invested in individual, if
5 we bought seven individual stocks, we bought the
6 puts and sold the calls on each individual security.
7 And I can remember, and I don't remember exactly for
8 how long I continued that, but if the statement came
9 out that we bought this list -- and I'm just using
10 seven as an example, it wasn't necessarily seven --
11 at specific dollar amounts and the puts and calls at
12 certain specific amounts, I actually went to the
13 newspapers and tracked to see how that fit into
14 the -- first of all, did it fit into a range, did it
15 trade at that value, and was it the high, the low,
16 the middle, the closing price of the range for the
17 day. That was one thing I did.

18 I can remember other exercises I went
19 through. They weren't necessarily due diligence,
20 but just from a tracking standpoint, I can remember
21 trying to project a month ahead of time what, based
22 upon the prices, what the maximum gain and the
23 maximum loss might be under the circumstances. And
24 then going back and seeing exactly how we did and
25 how that reality measured up to my projections.

1 That wasn't necessarily due diligence.

2 Q. How did your reality match up? Do
3 you have a general recollection?

4 A. To the best of my recollection, it
5 was -- first of all, it did fall within -- again,
6 what I projected was the maximum that we could gain
7 and the maximum we could loss -- lose. The fact
8 that there was puts and calls, there was a maximum
9 on both sides. And in all cases it would fall
10 between that. It wasn't outside that range.

11 Q. Let me just ask you this, kind of out
12 of order here, but do you recall any particular,
13 let's take month, any month in which Madoff reported
14 a loss on the investments that he purportedly made
15 on behalf of Sterling?

16 A. Yes.

17 Q. How many times do you recall there
18 being a loss?

19 A. How many times throughout the
20 entire --

21 Q. Yes.

22 A. -- 23-year --

23 Q. Yes.

24 A. This would be speculation because I
25 don't, without referring to records --

1 1987, in November of 1987, to be the risks of
2 selling puts, as you -- I'm sorry, workings of puts
3 and calls -- I was reading your title. I thought
4 you didn't sell a put, but...

5 Do you recall why, what the risks you
6 perceived in trading in puts and calls?

7 MS. SESHENS: Objection to the form.

8 A. I really don't recollect. This would
9 seem to follow up the Al Frank memo as opposed to
10 the, again, having anything to do with Mr. Madoff
11 suggesting. Again, it's talking about selling puts.

12 Q. The second paragraph begins: "Assume
13 we tell Bernie Madoff to sell puts that have
14 appreciated dramatically due to a market crash."
15 And then it goes on to describe how that transaction
16 is effectuated.

17 Did you ever tell Bernie to sell
18 puts?

19 A. No.

20 Q. Did you ever give Bernie any
21 instruction regarding the investments that he was
22 making on behalf, allegedly making on behalf of the
23 Sterling entities or partners?

24 A. No.

25 Q. You indicated before that you, at

1 some point in time, did some checking, you said you
2 looked in the newspaper after you got your statement
3 from Mr. Madoff and checked the prices at which his
4 trades, his trades had been effectuated. Do you
5 recall telling me that?

6 A. Yes.

7 Q. Do you recall when you did that?

8 Over what periods of time you checked the prices?

9 A. I don't have an exact recollection.
10 You mean how long after we got the statement or for
11 how long I continued to do that?

12 Q. How long -- it was the latter one,
13 how long you continued to do that.

14 A. I don't know exactly, but it wasn't
15 too long. I mean, it was a lot of work and it
16 didn't lead to anything that I would say something's
17 wrong.

18 Q. Is that the purpose for which you
19 were doing the checking?

20 A. Just -- well, I think it had multi-
21 purpose. One was just to learn more about the whole
22 procedure and work through it. At some point I even
23 tried to do the strategy myself to see how I would
24 make out if I did it. But the purpose was just to
25 learn to track it, to see how it worked and at the

1 same time if anything turned up that was not -- that
2 didn't look right.

3 Q. I take it nothing turned up that
4 didn't look right when you checked the prices?

5 A. That's correct.

6 Q. Did you notice if Bernie was
7 consistently selling at the high or selling in the
8 middle or selling at the low?

9 A. There was no consistency. It was
10 within the range, whether it was high or low. It
11 was just in the range, but I didn't see any, that it
12 traded right at the top, bottom or an average in
13 between.

14 Q. Did you ever look at, when you sold
15 the stock during a particular month, did you ever
16 look at how that stock traded across the whole month
17 to see if he sold it at the top consistently, the
18 highest price for the month?

19 A. No, I don't remember doing that. I
20 just remember when he sold it, on the day that he
21 sold it, I looked at that day's transactions.

22 Q. Just to see if it was in the range?

23 A. Yeah.

24 Q. Did you ever notice prices that were
25 not within the range, ever?

1 A. Not that I can recall, no.

2 Q. If you had noticed a price out of the
3 range on a particular stock, would -- what would
4 your reaction have been?

5 MS. SESHENS: Objection.

6 Q. What would you have done?

7 MS. SESHENS: Objection.

8 A. I would have brought it to the
9 attention of the partners and looked for guidance as
10 to what we would do next.

11 Q. Would you have -- would it have been
12 within your range of authority, within the scope of
13 your authority if you'd notice such a discrepancy to
14 call Madoff directly and ask him about that?

15 MS. SESHENS: Same objection.

16 A. I wouldn't have done that without
17 speaking to the partner.

18 Q. You wouldn't have called Madoff
19 directly?

20 A. No.

21 Q. Would you have called anyone at
22 Madoff's shop directly without speaking to the
23 partners for something like that?

24 A. I don't believe so. I would speak to
25 the partners.

1 A. I really don't recollect exactly.

2 Q. Did you check all of the trades for
3 all of the accounts at that, whatever time period
4 you were doing it, or did you just pick one account?

5 A. No, I checked -- no, not all of the
6 accounts because everything was a mirror image.

7 Q. Fair enough.

8 A. In other words, he would buy seven --
9 if he bought seven securities, it would be seven
10 securities in each account. So I only had to do one
11 account. I wouldn't have done every other account.

12 Q. But you would have done --

13 A. I would have done every trade, yes.

14 Q. So, you indicated that you attempted
15 to replicate Madoff's strategy. What did you do?
16 Tell me.

17 A. Trying to recollect exactly what I
18 did.

19 I would take the stocks that he
20 purchased, and I believe what I did was to follow
21 the strategy. What I'd want to see is I wasn't
22 testing what he did that he's giving us accurate
23 numbers, but if I utilize his strategy, let's say
24 when I got the slips that said this is what he
25 bought, I would take that information and then try

1 to enact it on my own account. Different
2 quantities, didn't matter the quantity, but just to
3 take what to buy, but I would always be lagging
4 behind him. Just to get a general idea of how I
5 would do, and I found that he did, I'm making up,
6 say 15 percent. I did more like six percent. I
7 made a profit. I determined in my own mind that the
8 strategy was good, it worked, but not to the extent
9 that it worked for him.

10 One of the major reasons was the
11 commission. When I did the strategy I determined
12 somehow what the commission would be, what I'd have
13 to pay if I did this on my own. Whereas he had
14 little or no commission, and that made a big
15 difference when you're dealing with, just looking to
16 try to make one percent a month, that made a
17 difference.

18 Q. So your understanding was that the
19 difference between the -- I know you made these
20 numbers up, but your six percent return that you
21 were able to accomplish and his 14 or 16, whatever
22 you said, was primarily driven by the absence of
23 commission costs?

24 MS. SESHENS: Objection to the form.

25 A. That was one of --

1 Right? Correct?

2 MS. SESHENS: Object to the form.

3 A. Yes.

4 Q. You managed the accounts?

5 A. Yes.

6 Q. You set up many of the accounts?

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

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

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

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

15 MR. LUCCHESI: Well, strike that.

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

18 MS. SESHENS: Objection.

19 A. Yes.

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

22 A. Yes.

23 Q. What is that? What is that?

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

1 about year-end, this would be utilized for the
2 financial statements, so --

3 Q. Right. Maybe I didn't ask the
4 question very well. I mean, you could have had just
5 a total. You could have had a total, 123, but, I
6 mean, it seems you're actually calling out Madoff
7 separately from the other investments to show what's
8 in Madoff versus what's everywhere else. I mean,
9 was that the intent here?

10 A. It was just an itemization, not --
11 each -- each place. There was a combination of
12 miscellaneous, but just to show where all money was
13 invested.

14 Q. Was there a concern at any point that
15 your divestment -- your investments -- Because you
16 had, as you told me yesterday, some substantial
17 portion of your investments with Madoff. I don't
18 mean yours personally. I mean the Sterling group.
19 Was there some concern that you weren't diversified
20 enough? Did anybody ever voice that?

21 A. We certainly took cognizance of being
22 diversified, and the point would be brought up on
23 occasion, but everybody felt so very comfortable
24 with Madoff. The returns were generally better
25 other than in a bull market where the returns in

1 Prudential might have been even higher than Madoff.
2 There was just total satisfaction and comfort with
3 having money invested with Madoff.

4 Q. Who would -- If there was one
5 particular individual or more than one, who were the
6 person or persons that were within your group that
7 raised concerns about diversification or lack of
8 diversification of your investments?

9 A. I don't know why I feel this question
10 was asked before, but, in any event, one I could
11 always point to would be David Katz, Saul Katz's
12 son.

13 Q. Okay. And how -- I don't know any of
14 these people. I probably should have done more
15 background research. But how old is David Katz
16 today?

17 A. Today he is 46.

18 Q. Okay. So in the nineties,
19 mid-nineties he would have been -- would have been
20 in his early thirties. When -- I'm just trying to
21 get some range of ages here. When do you recall him
22 first raising the issue of diversification?

23 A. Probably not as early as 1994. More
24 into the 2000 and above.

25 Q. Okay. So what was the reaction --

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

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

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

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

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

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

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

1 A. Just to have more information.
2 There's certain analysis that we did -- we did not
3 include the Mets. Just we have the figures
4 separated.

5 Q. Okay. So was the decision to back
6 the Mets out just random -- We'll just back out the
7 Mets. -- or was there a business reason for backing
8 out the Mets from the analysis?

9 A. No business reason. The Mets numbers
10 were varied more than others. When they needed
11 money, they withdrew money out of Madoff. When they
12 had extra money, certain times during the year,
13 generally, when season ticket holders purchased
14 their tickets, there would be large sums of money.
15 Towards the end of the season, the balances would be
16 smaller. So they changed a lot more than others.
17 It was just to identify. The Mets certainly were a
18 significant number.

19 Q. Okay. So if I could kind of reword
20 what you said. Was it -- the Mets were backed
21 out -- I think what you're telling me is because --
22 because of the variation in the Mets account, it
23 could skew the numbers one way or the other, make a
24 comparison from month to month or time period to
25 time period, not necessarily representative of what

1 conversation, no, I don't know.

2 Q. Do you know why American Securities
3 may have purchased insurance to cover its Madoff
4 investments?

5 A. I don't know.

6 Q. What did you do after learning of the
7 existence of this insurance or potential insurance?

8 A. As I said, I did make some contact
9 and got details on what the insurance was about and
10 the cost of the insurance.

11 Q. Okay. And do you have a -- well,
12 strike that.

13 Who did you contact?

14 A. I'm fairly certain I reported that,
15 when I made the contact, the gentleman's name, the
16 company he worked for and the other details of the
17 meeting. I believe it was Michael Katz and I both
18 met with some individual from an insurance company.

19 Q. Okay. And did you have more than one
20 meeting with the insurance company person?

21 A. I don't recollect if there was more.
22 Tend to think there was only one meeting.

23 Q. And did you take notes at that
24 meeting?

25 A. Yes. I usually do and I assume I

1 Q. I've handed you another handwritten
2 document we've marked as Exhibit 22. Does that
3 appear to be your handwriting?

4 A. Yes, it is.

5 Q. Do you recall taking those notes?

6 A. I don't actually recall taking them,
7 but there's no question that I took them.

8 Q. Can you tell from, either because you
9 remember and know or because something in the
10 document shows you, the circumstances under which
11 you wrote these notes?

12 A. I would say they were taken at the
13 time that I met with Mr. Duran or immediately
14 thereafter.

15 Q. Okay. Then what -- can you tell me,
16 the other notes that we looked at that were part of
17 Exhibit 20, when were those taken?

18 A. Those were taken sometime shortly
19 after February 26.

20 Q. Including the second page of Exhibit
21 20? Let me ask this: Is the second page of Exhibit
22 20 the notes that you took in order to write the
23 memo?

24 A. Yes.

25 Q. Okay, I didn't realize that. Thank

1 you.

2 So Exhibit 22 then are the notes you
3 took at the meeting with Mr. Duran?

4 A. Either at or immediately thereafter.

5 Q. Okay. And all the notes on this page
6 are in your handwriting?

7 A. Yes, they are.

8 Q. The first -- let's just read the
9 beginning part. What does that say? That heading,
10 what does that say? Bond, is it bond coverage?

11 A. Looks like bond coverage.

12 Q. Do you know what that refers to?

13 A. No. I don't know why I would have
14 written bond. The fact that it's outside the
15 margin, perhaps it doesn't -- perhaps I started to
16 write something. I don't know why I would have
17 written bond. I can understand coverage, but...

18 Q. Do you understand the beginning of
19 your notes to be describing the scope of coverage?

20 A. Yes.

21 Q. And this was based on the discussion
22 that took place in June of 2001?

23 A. Yes.

24 Q. And the first line says, "Fraud or
25 fidelity"?

1 A. Correct.

2 Q. And then in parens it says "Ponzi"?

3 A. Yes.

4 Q. What was the conversation that
5 surrounded those notes?

6 A. This, to some extent I'm guessing,
7 but that, he mentioned, I have some recollection of
8 him giving examples of what types of fraud, and
9 Ponzi was one of them. You can see I wasn't even
10 quite sure how to spell Ponzi.

11 Q. I see.

12 A. I'm not sure how I wound up
13 ultimately, either. It's hard to read.

14 Q. Looks like you've got an E on the
15 end.

16 A. I think so, too.

17 Q. Did you know what a Ponzi scheme was
18 at that time?

19 A. I don't think I did.

20 Q. Was there any discussion of Madoff in
21 particular during the course of this meeting?

22 A. No.

23 Q. Did you discuss your investments with
24 Madoff? Other than the fact that you had
25 investments. Well, let me ask that. Did you

1 SIPC, S-I-P-C, dash, only insolvency. What does
2 that refer to?

3 A. I'm only interpreting what I think it
4 means, is that SIPC only covers insolvency.

5 Q. And then below that it says, "Limited
6 to 100 million," dash, and then in parentheses it
7 says 300,000. Then below that, "probably 10 million
8 to 20 million per account." What does that refer
9 to, what was being discussed at that point?

10 A. The maximum amount of coverage that
11 would be available would be 100 million. The cost
12 would be 300,000, and he probably indicated or I
13 summarized that the maximum coverage for any one
14 account would be somewhere between 10 and 20
15 million.

16 Q. So, was this insurance ever
17 purchased?

18 A. No.

19 Q. Was any similar insurance ever
20 purchased?

21 A. No.

22 Q. By similar I mean other insurance to
23 cover investments made with Madoff against fraud or
24 infidelity.

25 A. No.

1 Q. What was the reason insurance was not
2 purchased?

3 A. We didn't see any need and the cost
4 was very high.

5 Q. Do you know who the SKCG Group is?

6 A. It's an insurance company that we
7 work with now, one of the insurance companies.

8 Q. What type -- do they provide any
9 insurance -- what type of insurance does SKCG Group
10 provide to you?

11 A. Provide property insurance for the
12 various properties that we own or manage.

13 Q. That insurance wouldn't cover your
14 Madoff losses, correct?

15 A. No.

16 Q. Do you recall from time to time that
17 Madoff would offer, I'll call them special deals for
18 investment?

19 A. I recall one such time. Only one.

20 Q. What do you recall? Tell me.

21 A. I recall that it was reported to us,
22 and I don't remember by whom or how they got the
23 information, that he was offering a special return.
24 He felt that there was something he could do to
25 increase the normal return we were getting by up to,

1 A. Well, as I indicated, perhaps it was
2 yesterday, I gave an example that David Katz was one
3 who preached more diversification and certainly he
4 would start, if he said we're putting too much on
5 Madoff, in Madoff, he would start by the doubling up
6 accounts. That's putting even more. So anybody who
7 felt we should diversify more and not keep anything
8 in one place, that is doubling up what you're
9 putting in.

10 Q. It's a tremendous amount of risk, in
11 comparison to not doubling up?

12 A. A tremendous amount of what?

13 Q. Risk.

14 A. We didn't -- we wouldn't have done it
15 if we felt risk. We didn't see risk. We were very
16 comfortable with investing money with the Madoff
17 firm. We put more and more money in and this was
18 just an opportunity to increase the return on the
19 investment we made. We didn't see, we didn't
20 understand any risk. You could term that, by
21 hindsight you could put a lot of titles on that, but
22 that was a fact. We were not -- none of the
23 Sterling partners are people who would generally
24 take risks.

25 Q. So generally you would classify your,

1 or describe the Sterling partners' investment
2 strategy as risk adverse?

3 MS. SESHENS: Object to the form.

4 A. To some extent, yes. The fact that
5 the strategy employed by Madoff used puts to protect
6 you on the downside, to that extent, yes. You
7 didn't have any risk, you weren't at risk in the
8 stock market.

9 Q. You mentioned yesterday, or maybe the
10 day before, Sterling Pathogenesis. That was also
11 a -- was that also a double-up account or leveraged
12 account?

13 A. I don't believe so. I'm not
14 absolutely certain, but I don't think so. Could
15 have been.

16 (Exhibit AF-28 marked for
17 identification.)

18 MR. LUCCHESI: Dana, I think you'll
19 recognize your letter. Just so I don't have to -- I
20 thought this was the easiest way to do this. Not
21 trying to make you a witness or anything.

22 MS. SESHENS: That is okay.

23 Q. Exhibit 28 is a June 3rd, 2002 letter
24 from your counsel, Dana Seshens, to Baker &
25 Hostetler. And attached to it is an Exhibit A,

1 page of the chart.

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

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

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

12 A. Yes, it was. Yes.

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

16 MS. SESSENS: Object to the form.

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

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

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

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

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

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

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

17 A. Yes.

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

20 A. Yes.

21 Q. Who did that?

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

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

1 A. There were meetings held with M & T
2 and anybody who had knowledge of all of the other
3 options and representatives from Sterling that knew
4 more about the Madoff option and answered any
5 questions at the same time.

6 Q. Who were the representatives from
7 Sterling that met with the employees?

8 A. I believe Michael Katz and myself
9 were two, but I don't remember exactly who, if any
10 other partners were present.

11 Q. Was anyone from Madoff's office
12 present?

13 A. No.

14 Q. Whose idea was it to offer the
15 401(k), as part of the 401(k) plan the option to
16 invest with Madoff?

17 A. I think that was all of the partners.
18 Somebody advanced it and all of the partners
19 endorsed the idea, to give all of the employees an
20 opportunity, whereas generally they didn't have that
21 opportunity to invest in Madoff. We at that point
22 were in Madoff some 11 years, were extremely happy
23 with the returns. It seemed like an ideal place if
24 anybody -- for retirement funds in particular to
25 grow tax deferred, good rate of return, the chance

1 of loss was very, very small. It just seemed like,
2 as I said, a great place to put retirement funds and
3 we were happy about being able to offer that
4 alternative to employees.

5 Q. Did anyone from Sterling talk to
6 Madoff about this before you offered it to the
7 employees?

8 A. Not that I know of. No, I'm sure
9 they didn't or else I would have known.

10 Q. So -- that answer, frankly, surprised
11 me.

12 If I understand you correctly, nobody
13 raised with Madoff in advance of creating this
14 401(k) investment option for your employees the fact
15 that perhaps there would be a new account being
16 opened, you'd like to open an account, a 401(k)
17 account for employees, no one discussed that with
18 Madoff?

19 A. Opening a 401(k) plan with Madoff?

20 Q. Yes.

21 A. Yes. That was discussed.

22 Q. Before you offered it to the
23 employees?

24 A. Absolutely.

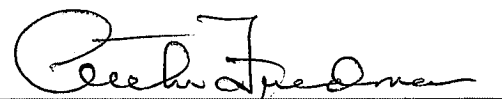
25 Q. That's what I was asking.

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JURAT

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

PAGE	LINE	CORRECTION
SEE ATTACHED	EXHIBIT A	



ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

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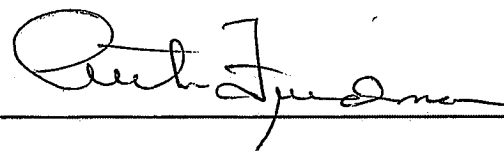
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No. 01MIG216250
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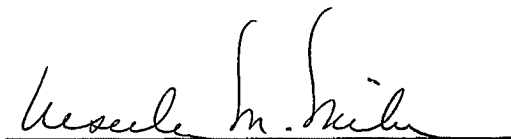


ARTHUR FRIEDMAN

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NOTARY PUBLIC, STATE OF NEW YORK
No. 01MI6216250

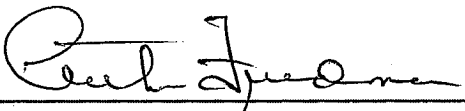
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JURAT

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

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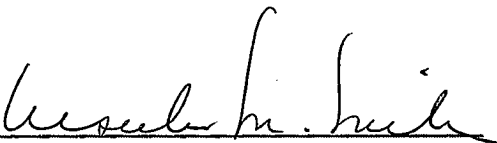


 ARTHUR FRIEDMAN

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September 28, 2010

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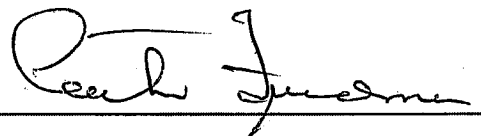
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JURAT

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:

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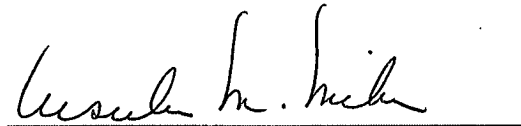


ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

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CONFIDENTIAL

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

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
			REDACTED	

CONFIDENTIAL

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			REDACTED	

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE	REASON
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EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE REDACTED	REASON
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353	6	just a good idea which nobody disagreed with, to	just a good idea, which nobody disagreed with, to REDACTED	Grammatical error
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358	7	Mets. -- or was there a business reason for backing	Mets -- or was there a business reason for backing REDACTED	Grammatical error
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EXHIBIT A

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EXHIBIT A

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