

# EXHIBIT N

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

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

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SECURITIES INVESTOR PROTECTION  
CORPORATION,

Videotaped

Plaintiff-Applicant,  
v.

Rule 2004  
Examination of:

BERNARD L. MADOFF INVESTMENT  
SECURITIES, LLC,  
Defendant.

SAUL B. KATZ

-----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 Wednesday,  
August 4, 2010, commencing at 10:04 a.m.

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1 it's really been a focus of my life.

2 Q. You've been chairman of the board for  
3 15 years?

4 A. No, no. Of the 15, nine years I've  
5 been chairman. But been very, very active.

6 Q. Is that a paid position or is that  
7 a --

8 A. No, no, it's not a paid position. In  
9 fact, it cost a lot of money.

10 Q. I would think so.

11 A. Costs a lot of money.

12 Q. Is that in the role, working for  
13 North Shore Long Island Jewish Health System, is  
14 that where you met Peter Stamos?

15 A. Yes.

16 Q. Was he also on the board?

17 A. No, no. Peter was a consultant.  
18 Peter was a health -- you know, he's got his  
19 doctorate, Peter got his doctorate in economics  
20 from -- he's a Rhodes Scholar, in Oxford. He  
21 actually wrote NAPTA (phonetic), he was the only  
22 chief of staff of a US senator. He was Bradley's  
23 chief of staff. He had left the hospital after I  
24 was no longer chairman the first time; retained a  
25 wonderful relationship. And so that's how the

1 relationship came.

2 Q. What, if you can tell me, what year  
3 did you first meet Peter Stamos; do you know?

4 A. Yeah. I can give you a range. I  
5 can't tell you exactly when, but it was somewhere  
6 around '95. 15 years ago.

7 Q. Just going back to your work, I think  
8 you said there were some points in time when a large  
9 percentage, I think you said 90 percent of your time  
10 might have been spent with the hospital health  
11 system.

12 A. Yes.

13 Q. What years would you have been that  
14 involved in the hospital activities?

15 A. In '98 to 2004, and then maybe 50  
16 percent in 2006 to 2010. And the in-between piece,  
17 maybe 25 percent.

18 Q. Before 1998 --

19 A. No.

20 Q. No, I understood you.

21 A. I'm sorry, okay.

22 Q. Before 1998, how much time did you  
23 spend outside of the --

24 A. 20. 20 or 25 percent.

25 Q. So before 1998 you were --

1           A.           Yes.

2           Q.           Did you have -- what does that mean,  
3 to invest in assets? Does that mean that --

4           A.           Finding other properties, or if not  
5 properties, they're businesses. To -- our concept  
6 has been to diversify. We've been diversifying out  
7 of the real estate business since 1980. If we were  
8 successful in 1980 in the real estate business, we  
9 want to be successful in other things to diversify.  
10 And so my responsibility is to find new things to  
11 diversify into.

12          Q.           Okay. Then when you told me before  
13 that you were responsible for investing money on  
14 behalf of the business or investing on behalf of the  
15 business, that's what you were referring to?

16          A.           That's exactly what I'm referring to.

17          Q.           Who is responsible for investing the  
18 partners' money or the Sterling entity's money into  
19 securities?

20                       MS. SESHENS: Objection to the form.

21          A.           I just don't understand the question.

22          Q.           Okay. Are you aware that the  
23 Sterling companies -- strike that.

24                       Did the Sterling companies make  
25 investments into securities or into funds, hedge

1 funds, money market funds, other types of funds?

2 A. The Sterling companies did not.  
3 Individuals might have.

4 Q. When you say the Sterling, when you  
5 say the Sterling companies have not --

6 A. Well, there was no Sterling way of  
7 investing. It was individuals made their own. We  
8 bought deals. People would be offered the  
9 opportunity to join the deal. There was never a  
10 point where we say, gee, IBM looks good, let's all  
11 go buy IBM. That's never the way we've done  
12 business.

13 Q. Okay. Describe to me how individuals  
14 would be offered the opportunity to participate in  
15 the deal.

16 A. Essentially the partners each have  
17 their own percentage. It changed over years of what  
18 percentage of the company and opportunities they  
19 had. And that changed over the years. So when an  
20 opportunity came up, people were told about the  
21 opportunity and they could come in to that  
22 opportunity up to their allotted interest.

23 Q. And they would invest their own  
24 money?

25 A. Yes, they would.

1 was simple, well respected member of the community.  
2 So...

3 Q. When were there -- when did you  
4 become aware of SEC investigations?

5 A. When I read about it in the paper,  
6 with those accountants in Florida.

7 Q. Were you aware at the time it was  
8 occurring or were you --

9 A. No. I saw it in the paper.

10 Q. -- or after the fact?

11 A. After the fact. After the fact. I  
12 didn't know --

13 Q. Let me ask the question differently.

14 A. Sure.

15 Q. Did you read about it in the paper  
16 and become aware of it after the collapse of Madoff?

17 A. No.

18 Q. Closer in time to when the event  
19 actually happened?

20 A. Yes. Yes.

21 Q. So you remember the accountants in  
22 Florida?

23 A. Well, I remember there were  
24 accountants in Florida who got in trouble with the  
25 SEC and the SEC had Bernie give everybody back their

1 money, as I read, which he gave back immediately.  
2 And the SEC, with this problem, in my mind would  
3 have investigated Bernie to make sure that Bernie is  
4 doing the right thing and he wasn't part of the  
5 charge on the accountants. And, again, Bernie is  
6 clean, Bernie is terrific. SEC has done a good job.

7 Q. Do you remember any other instances  
8 of becoming aware of SEC investigations of  
9 Mr. Madoff?

10 A. No. Not in detail. No.

11 Q. What's the relationship between  
12 either Sterling or the Mets and Travelers? At least  
13 back in 1990, what was the relationship?

14 A. What time was that?

15 Q. 1990.

16 A. I know we borrowed money from them.  
17 I don't even recall why we borrowed the money, but I  
18 know we borrowed money from them.

19 Q. Do you recall Travelers doing any  
20 diligence on Madoff in connection with any of its  
21 dealings with Sterling?

22 A. Yeah, because we put up some of  
23 Madoff's accounts for security, so they did an  
24 investigation with due diligence.

25 Q. Did you have any role in that



1 investigation?

2 A. Actually, I remember the name Barry  
3 Gonder. I think he represented them at the time. I  
4 also remember Barry Gonder telling me that his wife,  
5 who's in the securities business, did a similar  
6 strategy that Bernie was doing.

7 Q. When did he tell you that, at the  
8 time?

9 A. At that time.

10 Q. Did he tell you anything else about  
11 her strategy?

12 A. Not that I recall. Just the fact  
13 that certain things stick in your head --  
14 gesundheit -- certain things stick in your head, and  
15 that's, like the name Barry Gonder comes up.

16 Q. Now, did you, in preparation for your  
17 deposition, did you review Barry Gonder, any memos  
18 from Barry Gonder?

19 A. Yes, I did.

20 Q. Did you remember his name before you  
21 reviewed those?

22 A. Yes, I did. I don't take credit for  
23 remembering too many names, but that one for some  
24 reason I did.

25 (Exhibit SK-1 marked for

1 documents other than account statements from Madoff?

2 A. I think we got two things. We got  
3 stock transactions and monthly statements. Two  
4 different.

5 Q. The stock transactions, you're  
6 referring to confirmation tickets?

7 A. Confirmation tickets, yes.

8 Q. Do you recall getting other reports  
9 called portfolio management reports, maybe on a  
10 quarterly basis?

11 A. As I recall, there was a time we got  
12 something like that, but I don't remember seeing any  
13 for a while.

14 Q. What would you do with those types of  
15 documents?

16 A. All sent to Arthur.

17 Q. And the same with the confirmation  
18 statements?

19 A. Oh, yeah. Yes.

20 Q. What was the purpose of sending them  
21 to Arthur Friedman?

22 A. As I said earlier, he was the one who  
23 was our person in the office who gathered all the  
24 information on Bernie and whatever relationship we  
25 had with Bernie through the office, it was Arthur's.

1 Q. Did you keep copies of what you gave  
2 to Mr. Friedman?

3 A. No.

4 Q. Did you expect him to keep copies?

5 A. I'm terrible with paper. I don't  
6 keep paper.

7 Q. Do you know what Mr. Friedman did  
8 with the account statements and the other documents  
9 that you sent to him?

10 A. I have no idea.

11 (Exhibit SK-2 marked for  
12 identification.)

13 A. Are we through with this?

14 Q. Yes, for now.

15 I've handed you what's been marked as  
16 Exhibit 2. I'm really just interested in the second  
17 page of Exhibit 2.

18 A. Yes.

19 Q. Which is -- is that a document that's  
20 familiar to you?

21 A. Yes.

22 Q. That's the portfolio management  
23 report we talked about a minute ago?

24 A. Yes.

25 Q. Would you -- this one, this

1 Q. Their choice or your choice?

2 A. Their choice. It's their choice.  
3 It's their choice.

4 Q. Now, we talked to -- in our  
5 discussions with other people from Sterling, we've  
6 talked about investment in Madoff, not just by the  
7 Sterling partners, but by what I think we've called  
8 outsiders.

9 A. Friends and family.

10 Q. Friends and family. Tell me about  
11 your role in that, if you have any role.

12 MS. SESHENS: Objection to the form.

13 A. My role in that is that this was such  
14 a blessing that I wanted to share with my friends  
15 and family. And so if an opportunity came and if  
16 somebody needed a safe, steady return to help them  
17 live their life, we introduced them to an idea.

18 Q. And how would that introduction take  
19 place?

20 A. Tell them we're doing it and just  
21 tell them what we know, tell them what we knew.

22 Q. So give me -- what would you -- I've  
23 become a good -- let's say it's 1990 and I'm a good  
24 friend of yours and you're going to tell me about  
25 Madoff. What would you tell me?

1 Q. And it includes the other investments  
2 of your partners as well?

3 A. Yes.

4 Q. So, earlier you told me that the  
5 reports that you saw only had your and your family's  
6 investments.

7 A. Right.

8 Q. Is that still your understanding?

9 A. That's my understanding.

10 MS. SESHENS: Objection as to the  
11 form. Sorry.

12 A. What I said is that those are the  
13 ones I looked at. Those are the ones -- this is 15  
14 years ago. I don't know if I've seen another one  
15 since, nor do I remember seeing this one.

16 Q. So this one is from 1995.

17 Do you recall any point in time at  
18 which you considered purchasing insurance to cover  
19 your investments in Madoff?

20 A. I recall looking at and considering  
21 that.

22 Q. Tell me what you recall about that.

23 MS. SESHENS: Objection to the form.

24 A. I recall friends of mine who were  
25 more conservative than I am -- and I'm very

1 conservative -- talked about doing it and asked us  
2 to look into it.

3 Q. Who were the friends?

4 A. The friends at American Securities,  
5 my friend Chuck Klein.

6 Q. And did you have an understanding  
7 that American Securities had purchased insurance?

8 A. I think he said they were going to,  
9 or considering it.

10 Q. And so what did you do when you  
11 learned about this?

12 A. We weren't going to buy insurance on  
13 something that we thought was as good as gold and  
14 waste money.

15 Q. So what steps did you take to  
16 investigate, if any, what steps did you take to  
17 investigate the insurance aspect of this?

18 A. I think I asked Mr. Friedman to  
19 investigate it and see what the costs are. But  
20 that's because of my respect for Mr. Klein who said,  
21 just take a look at it. So we took a look at it.

22 Q. Did you attend any meetings with any  
23 outside third parties to discuss the insurance?

24 A. I don't recall.

25 Q. Do you recall a guy named Robert

1 Duran?

2 A. No.

3 Q. Do you recall a company called Frank  
4 Crystal & Company?

5 A. The name Frank Crystal strikes a  
6 bell.

7 Q. Do you recall the reasons why -- I'm  
8 assuming from your answer, I think you said you  
9 declined to buy the insurance.

10 A. Yes.

11 Q. Or determined not to. Do you recall  
12 the reasons why you decided not to buy insurance?

13 A. Why would we waste money? It was a  
14 waste of money.

15 Q. Because?

16 A. Because Bernie's not going to do  
17 anything wrong. We're not going to lose money in  
18 Bernie, he's totally collared. Why would we waste  
19 our money?

20 Q. What did you understand -- what types  
21 of loss did you understand the insurance you were  
22 looking at to protect?

23 A. I have no idea.

24 Q. Did it protect losses from bad  
25 investments?

1           Q.           But I just want to be clear. Did  
2 anyone ever tell you that parts of Bernie's business  
3 that should be transparent were in fact not  
4 transparent and, therefore, that should be a concern  
5 to you? Did anyone ever tell you that?

6           A.           The last part concern, the answer is  
7 no, because the only part that wasn't transparent is  
8 the part as to why he goes in when he goes in and  
9 when he comes out and what helps him make that  
10 decision.

11          Q.           Okay.

12          A.           I didn't have to worry about that  
13 because the fact is that if he is buying the stock  
14 and long and short, which is all he did for us other  
15 than being in treasuries, then we have nothing to  
16 worry about. The nontransparent is when he went in  
17 and when he went out.

18          Q.           Okay.

19          A.           And the fact is that not knowing that  
20 shouldn't make you uncomfortable.

21          Q.           Okay. Let me ask it this way then.

22                        Did anyone ever advise you that there  
23 was one or more reasons why you should be  
24 uncomfortable investing your money with Madoff?

25          A.           Not that I recall.



1           Q.           You told me earlier you met  
2 Mr. Stamos in connection with your work for the  
3 health system, I think you said around 1995?

4           A.           That's what I recall, yes.

5           Q.           And then at some point after you met  
6 him you developed a business relationship with  
7 Mr. Stamos, correct?

8           A.           Yes.

9           Q.           Now, were you the main person that  
10 was the point of contact for the discussions that  
11 ultimately developed into a business relationship  
12 between the Sterling Group and Mr. Stamos?

13          A.           My son and I.

14          Q.           Your son David?

15          A.           My son David.

16          Q.           What was the impetus, if there was  
17 one, for developing a business relationship with  
18 Stamos?

19          A.           For a long period of time my son was  
20 saying to me that when I'm gone and the family needs  
21 to be able to manage this money and if we had all  
22 the money -- if he had all the money in one place,  
23 what would I do. I told him he has to duck because  
24 I'll be sending lightning bolts down to him. It's  
25 very dangerous to have all your money in one place.

1 And so for years he used to bug us about the fact  
2 that we have all our money in one place, even if it  
3 was as good as it was, why do we have it all in one  
4 place.

5 Q. You used a lot of pronouns in the  
6 first part of your answer. I didn't follow who said  
7 what to whom.

8 A. David would say to me.

9 Q. When you're gone?

10 A. When I'm gone. When I'm gone and he  
11 has to manage the money.

12 Q. Okay.

13 A. And he had all the money, and David  
14 had all the money in one place, as good as it was,  
15 would I be happy, from up above. And the answer was  
16 no.

17 So, he was constantly on me and our  
18 partners to diversify, the same as we diversified  
19 our business, we should be diversifying our  
20 investment strategy.

21 Q. I'm not going to address the  
22 assumption that you'd be looking down from above.

23 A. But you can, it's okay. None of us  
24 are getting out of here alive. You're a lot younger  
25 than me, but I promise you you'll --

1 Q. Some of us might not be looking down.

2 A. Well, that's a different story.

3 Q. That's, we're not going to -- we  
4 don't have to talk about that.

5 A. Okay.

6 Q. Why was it of concern to you that the  
7 money not be all in one place when you're looking  
8 down from above, after you passed on, but it wasn't  
9 of concern to you while you're in the here and now?

10 MS. SESHENS: Objection to the form.

11 A. Easy. Lazy.

12 Q. I'm sorry?

13 A. Lazy.

14 Q. What do you mean?

15 A. I was lazy to do what I had to do,  
16 and that is to diversify. And that's when the  
17 opportunity came with Stamos, and this was an  
18 opportunity to now diversify. To also put in a  
19 position -- and let me give you an impetus here.

20 Fred and I went to visit Bernie, one  
21 of our visits, and the visit was, Bernie, you're  
22 doing a great job, but you're my age. He's a year  
23 older than me and a year younger than Fred. We're  
24 not going to be here. What happens when you're not  
25 here; who's going to be doing this? And his answer

1 was, we'll send you a check, you'll send it to U.S.  
2 Trust Company and they'll manage the money for you.

3 And we left that meeting and I said  
4 to Fred, David's right, we've got to prepare the  
5 kids and teach them how to manage the money and  
6 let's get somebody younger, who can train them, who  
7 can get started with a family office with our own  
8 money to manage the money ourselves.

9 Q. And that was Peter?

10 A. And that was Peter.

11 Q. You said something that jogged my  
12 memory.

13 So basically -- when was this meeting  
14 with Bernie? What year?

15 A. I'd say 2002, in that range.

16 Q. What -- so what Bernie was basically  
17 telling you was that when he was going to retire or  
18 hang it up or die, he was -- you -- he was going to  
19 cash you out?

20 A. Send us a check for all of our  
21 accounts, send it over to U.S. Trust Company and  
22 they'll manage your money.

23 Q. Did you respond to that in any way  
24 when Bernie told you that that was the endgame?

25 A. My answer -- I don't know if I said

1 it to him then or shortly thereafter, but that's not  
2 satisfactory to us.

3 Q. Did you ask why someone else wasn't  
4 going to run Bernie's business? He has two sons,  
5 right?

6 A. Yes.

7 Q. Did you ask him about that?

8 A. He said his sons run their  
9 proprietary business. They're very happy running  
10 their business, running the family money in the  
11 proprietary business in the trading, and that they  
12 don't do this.

13 Q. Did you have any observations or any  
14 information that contradicted that statement, that  
15 the sons knew about the other side, the side of the  
16 business you were involved with?

17 A. No.

18 Q. Did Bernie's statement about how his  
19 business was going to end and how your accounts  
20 would be dealt with, seem unusual or odd to you in  
21 any way?

22 A. No. In our mind he'd become a very  
23 wealthy man and there are a number of people who  
24 manage money like in the hedge fund business who no  
25 longer take money and they just run proprietary

1 proprietary --

2 Q. They invest in other funds?

3 A. -- they invest in other funds. There  
4 are 125 or 150 different managers.

5 Q. Of those other funds.

6 A. That they use to put together  
7 different strategies, whether it's a long-term  
8 investment, a short-term investment, whether it's  
9 long stocks or short stocks or long/short, and they  
10 put together different managers.

11 Q. And those funds, those managers in  
12 the funds they're dealing with, are those black box?

13 A. No. They're mostly all transparent.

14 Q. So they're all -- that's what you  
15 were telling me before, that they're all --

16 A. All transparent. And Peter's way of  
17 doing it was to make sure that all of his managers  
18 were transparent. And what I was suggesting to  
19 Peter that he should consider, because there are a  
20 lot of very successful black box hedge fund managers  
21 who do it proprietary and they don't let the people  
22 know what they're doing. It's very proprietary, but  
23 that some of their investors might want to take a  
24 piece of their money --

25 Q. And put it in a black box?

1           A.           And put it into -- knowing that it's  
2 nontransparent, knowing that there are six or seven  
3 or eight for diversification, and that they should  
4 consider doing that.

5           Q.           So you told -- in your discussions  
6 with Peter you --

7           A.           I don't tell him anything.

8           Q.           That's fine.

9           A.           Peter was the chief investment  
10 officer and is the chief investment officer at  
11 Sterling Stamos. This is, in the management level,  
12 trying to tell him there might be another kind of  
13 fund he could do.

14          Q.           You suggested that this other kind of  
15 fund would be a fund of funds made up of investors  
16 that had --

17          A.           Managers who have black boxes who are  
18 nontransparent.

19          Q.           And what was Stamos's reaction or  
20 response to your suggestion?

21          A.           He was considering it.

22          Q.           And when did you make that  
23 suggestion?

24          A.           Maybe three, four years ago.

25          Q.           And is he still considering it today?

1           A.           I don't know.

2           Q.           Has he opened such a fund?

3           A.           I don't think so.

4           Q.           Would you know if he did?

5           A.           Yes, I would. No, I take it back. I  
6 should but I'm not sure I do. It could happen -- it  
7 could be there and I don't even know about it.

8           Q.           How could that be?

9           A.           Because I'm not involved in the  
10 management strategy. I mean, in the investment  
11 strategies.

12          Q.           Is there a time when you were?

13          A.           Never.

14          Q.           Never been involved in any investment  
15 strategies at Sterling Stamos?

16          A.           No.

17          Q.           Is the same true for your son David?

18          A.           Yes.

19          Q.           Did you suggest, as part of this  
20 discussion about a fund of funds with the black box  
21 concept, did you suggest that Madoff be a part of  
22 that?

23          A.           Yes.

24          Q.           What was Mr. Stamos' reaction to  
25 that?



1 and brother and everybody put money in Bernie. Kept  
2 it in there until such time as we sat and talked  
3 about starting a new business.

4 Q. How do you know that -- how is it  
5 that you know that Stamos put money with Madoff?

6 A. I think he may have been one of the  
7 friends and family, I think he may have been one of  
8 the accounts that came to our office.

9 Q. Do you know how much money he  
10 invested with Madoff?

11 A. It was a few million dollars. A few  
12 million dollars.

13 Q. So that would have been -- he sold  
14 his business in SAI in 1997. Does that help you?

15 A. Yeah, that could be. That could be.  
16 He worked as an employee for a couple of companies  
17 in between, as an advisor. But then we talked about  
18 the fact that I thought he'd be a very good --  
19 because of his global economic understanding and how  
20 bright I thought he was, I thought he could put  
21 together a fund of funds to find the right managers  
22 to balance a portfolio for us, so that we're  
23 properly diversified, and so we started Sterling  
24 Stamos.

25 Q. And when was that?

1 Q. For the hospital?

2 A. That manages the endowment for the  
3 hospital, run by a man named Bob Rosenthal, who I  
4 invest with to this day.

5 Q. Is Rosenthal a customer of Madoff?

6 A. He's a -- no. I don't think so.

7 Q. Was he at any time?

8 A. No, I don't think so.

9 Q. I'm going to make a statement and ask  
10 you to tell me if it's true or false.

11 MS. SESHENS: I object to the form  
12 already, but let's see how this goes.

13 Q. The Katz, Wilpon and Stamos families  
14 began jointly investing in 1998 with a select number  
15 of individual hedge funds. True or false?

16 MS. SESHENS: Objection to the form.

17 A. Not that I recall.

18 Q. So around 2002 Sterling Stamos was  
19 set up, correct?

20 A. Yes.

21 Q. What was the initial strategy or  
22 vision for Sterling Stamos?

23 A. To balance a portfolio of hedge funds  
24 to protect our wealth long term.

25 Q. So was there a criteria for the type

1 of funds in which you would invest?

2 A. No.

3 Q. Not at any point in time?

4 A. No.

5 Q. How were decisions -- well, first of  
6 all, who ran Sterling Stamos?

7 A. Peter Stamos.

8 Q. Were there -- what was his title?

9 A. President and chief executive  
10 officer.

11 Q. Who were the decision-makers as far  
12 as what types of investments would be made by  
13 Sterling Stamos?

14 A. Peter was the chief investment  
15 officer.

16 Q. Were there any other persons that  
17 were decision-makers that would --

18 A. Peter made the decisions.

19 Q. Okay. What role did you have?

20 A. In?

21 Q. Sterling Stamos.

22 A. Only in where the business rented the  
23 space and how many employees and budget, only on a  
24 management of the business level. Zero involvement  
25 in any investments.

1 Q. So management on the business level  
2 would include what? You mentioned where the  
3 business rented space.

4 A. Where the business rented space, what  
5 the business plan was, how were they raising money,  
6 some of the strategies in marketing and how you  
7 market this thing, what do you -- what are you  
8 looking to sell.

9 Q. What role did David play? David,  
10 your son?

11 A. Same as me.

12 Q. Same as you?

13 A. Yeah.

14 Q. No decision-making with respect to  
15 investments, particular investments of the Sterling  
16 Stamos fund?

17 A. The only decision we made is putting  
18 our own money into any particular fund as it was  
19 offered to the limited partners. But not putting  
20 the fund together, not picking managers, not  
21 reviewing the managers, no review process. Nothing  
22 to do with the investment strategy of the company at  
23 all.

24 Q. Who is Ashok --

25 A. Ashok.

1           A.           Right.

2           Q.           Where did you obtain your money from,  
3 for your portion of the capital investment when  
4 Sterling Stamos was started?

5           A.           I moved some money from my Rosenthal  
6 investments, which was First Long Island Investors.  
7 I still have some but I moved some over. I moved  
8 some from Madoff over. And I don't recall where  
9 else. It could have come from a deal that I just  
10 closed or something.

11          Q.           As you -- do you know where your  
12 partners obtained funds to make their investment in  
13 Sterling Stamos?

14          A.           As I sit here today I don't know how  
15 much they put in or didn't put in.

16          Q.           Are you aware of whether -- well,  
17 strike that. I'll just stick with you because  
18 you're sitting there and they're not.

19                       As you made more investment over time  
20 in Sterling Stamos, was that primarily from funds  
21 that became available to you from operation of  
22 Sterling entities' business or did you take money  
23 out of Madoff to put in Sterling Stamos or was it a  
24 combination?

25          A.           Combination. The \$112 million that

1 we received from our share of the sale of our  
2 interest went right into Sterling Stamos, to  
3 different funds in Sterling Stamos.

4 Q. Share of your interest where?

5 A. In Sterling Stamos. When we sold to  
6 Merrill Lynch.

7 Q. Oh, sold to Merrill Lynch. That's  
8 later.

9 A. When we sold to Merrill Lynch those  
10 monies went right into Sterling Stamos. Other  
11 things may have happened. I don't know exactly  
12 where the monies come from.

13 Q. Now, there were --

14 A. If I had to guess, I would say the  
15 amount of money we had in Madoff, I would say the  
16 amount of money we had in Madoff in 2002 may have  
17 been the same amount we had now. In other words,  
18 it's not as if the Madoff money decreased. I wish  
19 it had.

20 Q. Right.

21 A. I wish we had taken more money out of  
22 Madoff.

23 Q. Just what you're telling me is it may  
24 be the case that you kind of just left Madoff static  
25 as far as new investments and your new money was

1 going into Sterling Stamos?

2 A. Yeah. But still money went into  
3 Madoff. I mean, we literally, if you'll excuse me,  
4 three hours -- now I can tell you that, three hours  
5 after Madoff was arrested I sent a million dollars  
6 from the Mets Foundation to Madoff. Three hours  
7 after he was arrested.

8 Q. Because you didn't know he had been  
9 arrested?

10 A. Yeah. So, the point is, money was  
11 still going to Madoff even during this period. It's  
12 not as if everything went somewhere else.

13 Q. I understand. I was really trying to  
14 find out if you -- you explained that the Sterling  
15 Stamos notion, part of the notion was to diversify.

16 A. Right.

17 Q. That was the impetus?

18 A. Our dream was to have half and half.  
19 That would have been our dream. To have half in  
20 Madoff and half in Sterling Stamos and if we had  
21 \$500 million in total in Madoff, which was I think  
22 close to where we had, I think at one time we had as  
23 much as almost, almost 350 to \$400 million at  
24 Sterling Stamos. I mean, we were growing to that.

25 Q. Was that your goal that you --

1           A.       Yeah, to balance, as part of the  
2 diversification.

3           Q.       Okay.

4                    Now, did you have any discussions  
5 with Madoff about Sterling opening this fund or  
6 opening this other investment --

7           A.       Yes.

8           Q.       Place to put your money, put it that  
9 way.

10          A.       Yes.

11          Q.       Tell me about those.

12                    MS. SESHENS:  Objection to the form.

13          A.       What would you like me to tell you  
14 about?

15          Q.       Start with, what did you tell  
16 Mr. Madoff?

17          A.       I told Mr. Madoff that we were going  
18 to start to diversify because of the conversation we  
19 had with them that I don't want U.S. Trust to run  
20 out of money.

21          Q.       And what was his response?

22          A.       I don't recall any great response.

23          Q.       Did he express any feelings about  
24 what you were doing?

25          A.       No.  He actually knew Peter and



1 partners' meetings and we got off on to a discussion  
2 following that. But I want to come back to that  
3 question.

4 A. Sure.

5 Q. Did the partners in the partners'  
6 meetings discuss the double-up accounts bringing a  
7 certain added element of risk to the business?

8 A. I don't ever recall us talking about  
9 the risk element in the doubling up, because we all  
10 assumed that the asset was solid, and that all we  
11 talked about is the ability to leverage and make a  
12 little bit more on that same asset class.

13 Q. Do you recall whether your son David  
14 had an opinion about the double-ups, whether that  
15 was a good idea or a bad idea from a business  
16 perspective?

17 A. My son David, as I think I testified  
18 earlier, felt as though we had too much in one  
19 place.

20 Q. And the double-ups would add to that?

21 A. Double-ups would add to that. So if  
22 we had too much in one place, too much plus  
23 something, it just compounds the lack of diversity.

24 Q. Did he voice that opinion to the  
25 group?

1           A.           Many times.  Never about the asset.

2           Q.           I understand.

3           A.           Never about the asset.

4           Q.           Just about the fact of too much in  
5 one place?

6           A.           Too much in one place.

7           Q.           And why -- was there a consensus  
8 among the partners that diversity was a good idea?

9           A.           Everyone believed diversity was a  
10 good idea.

11          Q.           Why was it, how was it that you ended  
12 up with all your eggs in one basket, at least at  
13 that point in time?

14                   MS. SESHENS:  Objection to the form.

15          A.           We all felt very strongly that we had  
16 no risk.  This was a risk-free investment because --  
17 now, of course, the world could have come to an end  
18 and the puts, which are a derivative, the other end  
19 of the puts could be some company that can go out of  
20 business.  But we didn't think that way, we didn't  
21 think that the world was going to come to an end.  
22 As a matter of fact, as bad as the market took place  
23 now, I didn't hear of any puts not being supported.  
24 So, it was a -- obviously erroneously, we believed  
25 this asset was as good as can be, it was as good as

1 (Recess taken.)

2 THE VIDEOGRAPHER: We're back on the  
3 record. The time is 4:19. This is tape number 5.

4 BY MR. LUCCHESI:

5 Q. Mr. Katz, what was the benefit to  
6 Sterling Stamos -- I'm sorry, the Sterling  
7 organization to administering the accounts of the  
8 friends and family?

9 MS. SESHENS: Objection to the form.

10 A. What was the benefit?

11 Q. Was there a benefit?

12 A. No. It cost us money to do so.

13 Q. Why did you do it?

14 A. 'Cause we're good guys.

15 Q. Any other reason?

16 A. None.

17 Q. You said it cost you money to do  
18 that. What are you referring to?

19 A. That some of our employees are  
20 spending time on doing things gratis for friends and  
21 family.

22 Q. Is that a business practice that was  
23 carried over with respect to Sterling Stamos  
24 business?

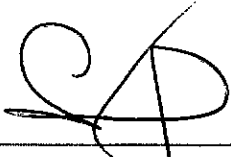
25 MS. SESHENS: Objection to the form.

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JURAT

I, SAUL B. KATZ, do hereby certify that I have read the foregoing transcript of my testimony taken on August 4, 2010, and have signed it subject to the following changes:

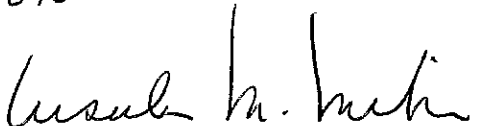
PAGE	LINE	CORRECTION
SEE ATTACHED	EXHIBIT A	




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SAUL B. KATZ

Sworn and subscribed to before me on this day of 13<sup>th</sup> day of October, 2010

NOTARY PUBLIC: 

URSULA M. MIKA  
NOTARY PUBLIC, STATE OF NEW YORK  
No.01M16216250

EXHIBIT A  
REDACTED

13	21	actually wrote NAPTA (phonetic), he was the only	actually wrote NAFTA (phonetic), he was the youngest	Transcription errors
13	24	was no longer chairman the first time; retained a	was no longer chairman the first time; we retained a	Grammatical error
14	1	relationship came.	relationship came about.	Grammatical error

REDACTED

EXHIBIT A  
REDACTED

108	16	worry about. The nontransparent is when he went in	worry about. The nontransparency is when he went in	Grammatical error
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REDACTED

116	24	not going to be here. What happens when you're not	not going to be here forever. What happens when you're not	Transcription error
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REDACTED

126	12	the funds they're dealing with, are those black box?	the funds they're dealing with, are those black boxes?	Grammatical error
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REDACTED

CONFIDENTIAL

SIPC v. BLMIS No. 08-01789-BR:  
Rule 2004 Examination of Saul Katz  
EXHIBIT A  
REDACTED

CONFIDENTIAL

SIPC v. BLMIS No. 08-01789-BR:  
Rule 2004 Examination of Saul Katz  
EXHIBIT A  
REDACTED