EPSTEIN DEPOSITION NOTES 4.20.11

BILL SCHWARTZ	
Wouldn't you always want a shorter lockup? No. There are reasons for longer lock ups	
Only wanted to put in 2-year max money. Understood it would be a single lockup of a single cap acct. Got this from GD at time he first invested. Never spoke to DZ until years later. My understanding came from counsel also. Everyone knows I don't invest for more than 2 yrs in a HF—too risky. Doesn't recall whether he had made other HF investments that had sep lockups for different traunches. Only remembers the lockup terms on this one because it is the only one we've had a problem with.	
Got letter in early 05 about lockup rights of new and existing investments. Also spoke to GD in late 04 about this. I've had many conversations where I have	

warned against having more than a 2 yr lockup. Should be less.	
X-1 (1/11/05 letter). Discussed it with GD. Assured that this letter accomplished a 2-year lockup for entire cap acct.	
Have always had one cap acct. The letter didn't change this. Letter reconfirmed that my cap acct would not be subject to 3year lockup, but only 2 year lockup. Doesn't recall whether the lockup would end 2 years from date of orig inv or from another date.	
Under orig. lockup, could withdraw cap acct in June 04, June 06 and June 08. Letter said I could withdraw at end of March 07. I did commit to keep my money in the fund for an additional 9 months. I didn't think about it at the time. I have a single cap acct, with a single lockup period of 2 years, starting from scratch in Jan. 05.	
X-2. Memo from DZ to LPs in	

DBZ Spec. Opps Fund: only new investments would be subject to 3 year lockup.	
FTC was set up when I left Bear Stearns. Less than 30 people work for it. It is located in the V. Islands. JE is resident of VI. JE moved to NY in late 90s. FTC advises wealthy individuals on investments and does business only in the VI.	
Investment in HZ Fund was my own money. No clients number. I have invested clients money and my money in other HFs (around 10)	
Pled guilty to two counts: solicitation of prostitution and procuring a minor for prostitution. Sentenced to 30 months: 18 in incarceration and one year in community control. From July 08-09 was incarcerated; then in community control (an intense form of probation).	
Met GD 18 years ago. He was the fiancée of Eva Anderson, a	

former girlfriend. Became friends in 2000. GD has given me business advice; in 2002 became a good friend. Began investing with him in 2000 and r/s became more personal in 02. Became "godfather" of the daughter. 16, 14 and 12 year old kids.	
Bet 2000 and today have invested $300m with GD in HB. HB=fund of funds. One of HB's funds or divisions was HG/Zwirn. GD thought I should give DZ some money. Gave Z money based solely on D's recommendation. Didn't meet Z til several years later.	
I met Z only once in person, for 5 minutes in my office. Hadn't spoken to him before then.	
In 03 considered buying HB myself. I went to JPM to see if they would finance my purchase, but I then decided that JV made more sense. Staley met with GD. Henry S and GD each owned 50% of	

HB. I ended up getting $20m. $15m given to FTC; $5m given to people at Financial Strategy. The people there work only for me. I would have had to pay their expenses otherwise. Financial Strategy provides legal and acctg services. They are in NY. Have less than 10 employees. DI is in charge.	
Doesn't know how much JPM paid for HB. I think it paid north of a billion. It had assets of 4-7B under management at the time. I was willing to pay $2.5-3B.	
GD came to JE's house and said you should get a fee. JE said pay me what is fair; I will not negotiate. This was after JPM had reached agreement with GD. He said $20m. It was essentially a finders fee. X-3 is 12/28.04 invoice for $15m for merger and acq advice.	
X-4 is proposed consulting agreement bet FTC and HB of	

6/24/05: don't know what this is about. We discussed possible consulting but nothing ever came of it.	
Decision to invest in H/Z was based solely on what D told me. He said to put it with Z. Same true for all 3 investments in 02. Based solely on what D advised. In 03, D probably said they were doing very well; I learned at some time it was a pipe investor, i.e., making bridge loans. Returns were solid; had HB's money under management (500-600m). Wide-range of investment opportunities.	
Long speech about what GD told JE after the redemption request	
Late Sept 06= call from DZ. Said he was calling me to tell me he was firing CFO, but reasons for firing him were immaterial. I asked what those reasons were. He said, sorry, I can't. He said it was on advice of counsel. I said since it's the	

fund's counsel, I have a right to know. I want all my money out now.	
I then called GD. I told him about the call. I told GD I want my money out. This is nuts. He said relax, relax; let me find out what's going on	
He called me back 20 minutes later and said Z will call you tomorrow.	
The next day Z did not call; I think I call D around noon: Z has not called me. D said it will happen; I'll get right back to you	
45 minutes later Z called: I understand ur upset, let me explain what's happening. There have been acctg irregs and I had to fire my CFO; the amt of money is less than 100k, a couple of basis points; just journal entry errors, bookkeeping inaccuracies. At first smell of trouble, my discipline is to get my money out. I said, I want to speak to	

the atty.	
Spoke to GD right away and told him what Z had said.	
I spoke to DI and may have spoken to HB about this	
HD called me. He said I'm calling to straighten out the idea. DZ told you what was immaterial at my direction. We don't really know full extent of what's going on. So you told Z to lie to me. "I represent all the limited partners".	
I then called GD. This is ridiculous; I want all my money out; I can't have someone I distrust managing money for me. I'm not being told the full story	
GD called back and said that DZ understood that I wanted all my money and that if I asked for it, it would cause a run on the bank. I talked to DZ and he asked if I could reduce my demand to half. I said no, I want more than that. If HB is	

staying in I will leave my in. I spoke to DZ and he agreed to the $80m.	
He called me back with DZ on the phone and Z agreed to the $80m. Z thanked me for reducing my demand. He said it would avoid run on bank. We can set up a meeting with the accountants to show them and assure you that the $53m is safe. BEFORE P. 42	
Some conv with Z where he said moneys were improperly moved from offshore fund to onshore fund; there was going to be some adjustment of interest; involved some journal entries. Lots of questions from the investor call transcript that JE doesn't recall Z having told him.	
Recalls a conversation with HB where I asked him to find out how long it would take to get other money's out. Doesn't recall HB getting back to him	
No follow up to demand for	

$80m. I thought I would get it out around March because it takes time to liquidate a HF acct.	
No conv. With DZ between time he agreed to return $80m and end of year	
Jeepers set up a US sub of FTC to avoid US-sourced income via the fund investment.	
Schwartz suggests that JE agreed to withdraw his $80m withdrawal demand in exchange for the fund's consent to the assignment	
X-6 (executed Assignment,12/29/06)	
Didn't learn in Jan 07 that D had informed Z that he was to no longer manage HB money. I didn't know about this; I was surprised; he had told me he was going to keep his money in, but here he is pulling it out.	
X-8 email of 2/14 from GD to JE, with attached redemption chart. Doesn't recall seeing	

this. He did send X-9. The "conflicting conversations" were about how much money was in my acct, bet $127 and $134m.	
X-10 2/14/07 Letter demanding withdrawal	
No recall of conversation with D, D's wife and Z	?
Has had 15-20 conversations with GD about this matter	
D said that Z was liar and cheat; it's amazing that the SEC found no violation; he misled everyone; he was a micro-manager. Nothing Z had told him turned out to be accurate.	
In last 2 months I have had a conv with Perry Gruss. He agreed to meet with me. We met for 5 minutes. The fund had no liquidity; there was not going to be a run on the bank; it deferred fees to benefit Z's personal tax position.	
Who is Ron Tutor?	?

D and my memories jogged on the conversation we had with Z together about him honoring my $80m request	
GD said he was misled by Z about: (1) the airplane, (2) a monstrous cash shortage and the fund was totally illiquid, (3) badly managed fund; (4) no fear of run on the bank; (5) things were immaterial when they were material; (6) money was taken from the H managed account.	
The fact that some of the funds assets are illiquid doesn't mean that the funds as a whole has no money to redeem investors.	
I asked D if he would provide us an affidavit. X-12 is a draft of affidavit that Lesley Groff sent to GD to sign. I didn't ask her to send it. I don't think I read it before GD signed it. I could have seen it.	
GD said he would have withdrawn H's money if he had known about the airplane. In	

Oct or Nov. of 06, he said he was keeping HB's money in the fund.	