

In the Matter of the Arbitration Between

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 FINANCIAL TRUST COMPANY, INC. AND :
 THE COUQ FOUNDATION, INC., :
 :
 Claimant, :
 :
 -against- :
 WARREN SPECTOR, :
 :
 Respondent. :
 -----X

Case Number: 09-00979

**AFFIDAVIT OF
JAMES E. CAYNE**

STATE OF NEW YORK)
)
 COUNT OF NEW YORK) ss.:

JAMES E. CAYNE, being duly sworn, deposes and says:

1. I am the former Chairman of the Board and Chief Executive Officer of the Bear Stearns Companies Inc. (“Bear Stearns”). I was employed by Bear Stearns from 1969 until 2008. I became President in 1985, Chief Executive Officer in 1993, and Chairman of the Board in 2001. I resigned as Chief Executive Officer on January 8, 2008, but remained with Bear Stearns as the non-executive chairman through _____.

2. Warren Spector was Co-President and Co-Chief Operating Officer of Bear Stearns from June 2001 to August 2007. Warren was forced to resign from those positions on August 5, 2007, but remained employed by Bear Stearns as a Senior Managing Director until December 28, 2007.

3. With the exception of investment banking, all divisions reported to Warren in his capacity as Co-President and Co-COO. Warren alone had ultimate responsibility for risk management for Bear Stearns and Bear Stearns Asset Management (“BSAM”). This included the Bear Stearns High-Grade Structured Credit Strategies, L.P. (the “High Grade Fund”) and the

Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Fund, L.P. (the “Enhanced Fund”) (collectively, the “Funds”), the two BSAM funds that collapsed and ultimately led to the demise of Bear Stearns.

4. Warren was the individual who ran the Funds. The fund managers all reported to Warren. It was his job to exercise complete oversight of their management, particularly with regard to risk. Any claim by Warren that he had no role in the oversight of the Funds is a complete fabrication and distortion of the truth. Warren repeatedly promised me that he was carefully monitoring the risks of the Funds and that appropriate controls were in place. He lied to me. Presumably to protect the enormous wealth he was accumulating as a result of his position at Bear Stearns, Warren concealed the true state of affairs with the Funds [GIVE EXAMPLES]. Rather than accept responsibility, Warren has apparently decided to create the fiction that he was not involved.

5. In the 1990s, at a time when I trusted Warren, I introduced him to my friend and former colleague Jeffrey Epstein. I introduced him as someone Jeffrey could trust. I now regret both the trust I put in Warren and my introduction of him to Jeffrey.

6. Over time I observed that Jeffrey relied upon Warren in deciding whether to invest with Bear Stearns. As Warren advanced in seniority at Bear Stearns and gained a credibility that unfortunately he proved unworthy of, he was a principal contact between Bear Stearns and Jeffrey. From the time I introduced them, Warren introduced Jeffrey to a significant amount of Bear Stearns’ deals. [FILL IN DETAILS OF JEE’S VENTURES WITH SPECTOR]. I also became aware that Warren and Jeffrey became friends.

7. Warren was not worthy of the trust that Jeffrey placed in him. [DOES JC HAVE KNOWLEDGE OF WARREN SEEKING OUT JE FOR THE FUNDS? IF SO, WE SHOULD AMPLIFY HERE]

8. It is now apparent that the Funds were not properly managed from the outset. It is also clear that Warren decided to conceal those problems from clients. He even concealed facts from me and others on Bear Stearns' Board of Directors. As an example of his dishonesty, Warren secretly invested \$25 million of Bear Stearns' money in the Enhanced Fund. This unauthorized investment resulted in almost a total loss. When confronted with irrefutable evidence of his duplicity at a meeting of the Board of Directors in 2007, Warren's feeble explanation was "I fucked up." I, along with at least 10 other people in the room at the time, heard Warren make this admission.

9. As a result of his deceit and failure to install and manage a proper system of risk management, I took an extremely critical view of Warren's performance. This view was shared by members of Bear Stearns Board of Directors. Given internal signs that all was not well with the Funds, Warren's compensation was significantly reduced in March 2007. His forced resignation in August 2007 was due to our inability to trust Warren any further because of the lack of care and honesty he displayed in the performance of his duties to Bear Stearns, its customers and shareholders.

JAMES E. CAYNE

Sworn to before me this
____ day of July 2009.

Notary Public