

Ex. 12

Ex B. to the Declaration of John M. Callagy (docket entry no. 54),  
dated April 27, 2011

KELLEY DRYE & WARREN LLP

**C O N F I D E N T I A L  
M E M O R A N D U M**

**TO: Mr. D'Ablemont**  
**CC: Executive Committee**  
**FROM: John M. Callagy**  
**Merrill B. Stone**  
**DATE: February 22, 2000**  
**RE: Life Partner Arrangements**

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First off, please accept our apologies for not getting back to you sooner after our meeting a week or so ago. We all appreciate that this process has gone on longer than any of us would have liked. Because, however, the issues involved are very important to both you and the Firm, we needed to consider the matter most seriously. Also, the questions involved do not lend themselves to hasty solutions. In any event, following our meeting, we revisited the matter with the entire Executive Committee. We also reviewed the latest memorandum which you sent to us on February 14, 2000. Rather than going through a point-by-point analysis responsive to your memorandum, which essentially memorialized matters which had already been discussed, we think it is more productive to clarify what the Executive Committee has concluded is a fair and generous resolution of the situation.

As we discussed during our meeting, the Executive Committee continues to believe that it is neither appropriate nor healthy in the long term to attempt to compensate Life Partners on the basis of measuring economic and other contributions to the Firm comparable to what is done for equity and stipulated payment Partners, or to award bonuses on a "quid pro quo" basis. The ultimate goal is to institutionalize clients, transition practices and make sure the Firm is sufficiently dynamic, healthy and vibrant to insure that Life Partners will continue to receive their Annual Life Partner Payments over time. If the Executive Committee assumes the role of a "Points Committee" for Life Partners, we would be embarking on a path which everyone would preferably avoid and exalting a concept and mindset inconsistent with the purposes of the Life Partner Program.

With this in mind, the examples which you have raised regarding other Partners were dictated by special circumstances existing when the arrangements were made of which you are well aware. In these instances we took steps which were expedient and, we felt, necessary at the time. We have explained to you why we do not believe your situation is analogous to those cases and why we believe what we have suggested is at least as advantageous to you as what we have done for others. We note that in no case have we permitted an individual to retain Ancillary Income, receive a Life Partner Payment and still derive additional compensation from the Firm.

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In light of the above, with respect to the Year 2000, we would hope that you would continue to help to institutionalize and transition your clients, a process which you have indicated has already begun. In that connection, we are prepared to give you a \$10,000 client development allowance, which is consistent with the levels that certain other Life Partners who remained active in Firm matters have received. In order to facilitate transitioning of your practice and to eliminate the possibility of debates over the quantification of contributions, we would ask that you assign billing credit for all of your matters to other Partners who are involved with your clients. We would at the end of the year review the progress being made and would consider awarding you a bonus at that time. We must emphasize, however, that any payment would not be tied to any objective measure of economic contribution. Our willingness to consider a bonus is conditioned on your not retaining Ancillary Income, whether from other affiliates or other sources. Alternatively, if you prefer to keep the retainer which is willing to pay to you, we would not be in a position to consider making any additional payments to you. You would also, of course, be entitled to the benefits of the policy adopted by the Executive Committee about a year ago regarding compensating Life Partners for originating new clients. An excerpt of the Minutes of the Meeting at which the policy was adopted is enclosed for your reference.

We recognize that this approach does not represent all that you would have liked. Knowing your devotion, dedication and loyalty to the Firm, coupled with your inherent understanding of why it is necessary on occasion to subordinate individual interests for the overall good of the institution, we trust you will understand why we feel it is necessary to proceed this way.

We hope you consider this in the light in which its is intended and will continue to be a loyal and valued member of the Kelley Drye family.

The Committee discussed issues relating to certain Partners In Transition and Life Partners who continued to remain active in and make a significant contribution to the Firm's practice. The Committee then considered an appropriate means to recognize and give incentives to Life Partners so they continue to promote the interests of and feel a part of the Firm, while at the same time assuring that their efforts help institutionalize the Firm's practice. In this connection, the Committee adopted a policy pursuant to which Life Partners would receive 10% of Fee Collections for work done during the first twelve months after the first New Matter Report is entered for a client originated by a Life Partner which was not previously a client of the Firm or for which we had not done work during the two previous full calendar years, provided that (a) the percentage would decline in the same amount as the realization rate on such collections (taken as a whole) fell below 90% in any calendar year and (b) a Partner who is not a Life Partner or in Transition must be the billing Partner on all such matters. The Committee also reserved the right to provide other qualifications and conditions on the eligibility to receive the benefits of this policy in appropriate cases to assure that the objectives of preserving and transitioning the Firm's practice was achieved, and to award bonuses to Life Partners in other appropriate circumstances.

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