

**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:

American Diagnostic Medicine, Inc.

Debtor.

Chapter 11

Case No. 11-03368

Honorable Carol A. Doyle

**DISCLOSURE STATEMENT WITH RESPECT TO
CHAPTER 11 PLAN OF REORGANIZATION OF
AMERICAN DIAGNOSTIC MEDICINE, INC. PROPOSED
BY THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

January 17, 2012

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**THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE
COMMITTEE PLAN. THIS DISCLOSURE STATEMENT IS BEING
SUBMITTED FOR APPROVAL BUT HAS NOT YET BEEN APPROVED BY THE
BANKRUPTCY COURT. SOLICITATION OF ACCEPTANCE OR REJECTION
OF THE COMMITTEE PLAN MAY OCCUR ONLY AFTER THE BANKRUPTCY
COURT APPROVES THIS DISCLOSURE STATEMENT.**

I. Introduction

On January 28, 2011 (the “*Petition Date*”), American Diagnostic Medicine, Inc. (“*ADM*” or the “*Debtor*”) filed a voluntary petition for reorganization under Chapter 11 of Title 11 of the United States Bankruptcy Code (the “*Bankruptcy Code*”) in the United States Bankruptcy Court for the Northern District of Illinois (the “*Bankruptcy Court*”). The Debtor continues to manage its affairs as a debtor in possession pursuant to §§ 1107(a) and 1108 of the Bankruptcy Code.¹ On March 28, 2011, the Office of the United States Trustee appointed an Official Committee of Unsecured Creditors (the “*Committee*”) to represent the interests of unsecured creditors of the Debtor pursuant to § 1102.

The Committee has now filed its *Chapter 11 Plan of Reorganization of American Diagnostic Medicine, Inc. Proposed by the Official Committee of Unsecured Creditors* dated January 17, 2012 (the “*Committee Plan*”), a copy of which is attached to this Disclosure Statement as Exhibit A.² The Committee submits this Disclosure Statement (the “*Disclosure Statement*”) pursuant to § 1125 to each known holder of an impaired Claim or Equity Interest in order to provide information adequate for each such party to make an informed decision whether to vote for or against the Committee Plan.

THE COMMITTEE URGES ALL HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE COMMITTEE PLAN TO VOTE TO ACCEPT THE COMMITTEE PLAN

A vote for acceptance of the Committee Plan by those Holders of a Claim who are entitled to vote is most important, particularly in this Case where the Debtor is proposing a “competing” plan (the “*Debtor Plan*”) that the Committee believes provides creditors with an inferior recovery. As the Committee believes that the Committee Plan represents the best means

¹ Unless otherwise indicated, all references to statutory provisions are intended as references to provisions of the Bankruptcy Code.

² Except as otherwise defined herein, capitalized terms herein shall have the meanings ascribed to them in the Committee Plan.

of reorganizing the Debtor and is in the best interests of creditors, creditors are urged to vote in favor of the Committee Plan. Voting instructions are set forth at pages 32 to 36 of this Disclosure Statement. To be counted, your ballot must be duly completed, executed and received by 4:30 p.m. on [_____], 2012 (prevailing central time) at the following address:

**Clerk, United States Bankruptcy Court
219 S. Dearborn Street
7th floor - Attn: Chapter 11 Ballots
Chicago, Illinois 60604**

Creditors are urged to read the entire Committee Plan and Disclosure Statement, including exhibits, before voting. Plan summaries and statements made in this Disclosure Statement are qualified in their entirety by reference to the Committee Plan, other exhibits annexed hereto and other documents referenced as filed with the Bankruptcy Court prior to or concurrent with the filing of this Disclosure Statement. If any descriptions contained in this Disclosure Statement are inconsistent with the terms of the Committee Plan, the terms of the Committee Plan shall prevail.

Except as otherwise indicated herein, the factual and financial information contained herein (including the exhibits hereto) regarding the Debtor, its businesses, and claims against the Debtor in this Case have generally been taken from or are based upon information from the Debtor's books and records, filings with the Bankruptcy Court, analysis provided by the Debtor or produced by the Committee, and from claims filed against the Debtor in the Case. Except as otherwise indicated, such information has not been subject to audit or independent review. While the Committee has taken reasonable steps under the circumstances to ensure that such information is accurate, the Committee and its professional advisors, including its counsel and financial advisors, do not and cannot warrant the accuracy of such information.

This Disclosure Statement has not been approved or disapproved by the Securities and Exchange Commission or any securities regulatory authority of any state, nor has the Securities and Exchange Commission passed on the accuracy or adequacy of the statements contained herein. Any representation to the contrary is a criminal offense.

Except as expressly set forth in this Disclosure Statement, no representations are made respecting the Debtor, its business operations, the value of its property, or the value of any benefits offered to creditors or other parties in interest in connection with the Committee Plan. Any representations or inducements made to secure your acceptance or rejection of the Committee Plan that are contrary to the information contained herein should not be relied upon by you in arriving at your decision to accept or reject the Committee Plan.

Delivery of this Disclosure Statement shall not create the implication that there has been no change in respect of the information set forth herein since the date of this Disclosure Statement and the date of the materials relied upon in preparation of this Disclosure Statement. While the Committee will furnish to creditors entitled to vote on acceptance of the Committee Plan such additional information as may be required by applicable law prior to the Voting Deadline, the delivery of this Disclosure Statement will not under any circumstances imply that the information herein is correct as of any time subsequent to the date hereof.

Approval of the Disclosure Statement does not constitute a determination by the Bankruptcy Court as to the fairness or merits of the Committee Plan.

II. Summary of the Committee Plan Pursuant to Local Rule 3016-1

A. Narrative

The Committee Plan contemplates the reorganization of the Debtor as a going concern, the payment in full of several Classes of creditors on or shortly after the Effective Date, and the payment of General Unsecured Claims (as well as the Allowed claim of Cardinal Health) over time from a creditors' trust (the "*ADM Creditor Trust*"). This is accomplished through a series of transactions, including, among others:

1. Existing ownership interests (equity) in the Debtor are canceled and the ADM Creditor Trust becomes the owner of the Reorganized Debtor
2. The Committee conducts an auction for the "Beneficial Interest" in the ADM Creditor Trust (*i.e.* the right to manage the Reorganized Debtor, receive certain payments for doing so, and the right to own the Reorganized Debtor after it satisfies its obligations to creditors).
3. The Committee believes the sale of the Beneficial Interest will generate a minimum of \$300,000 for creditors. The Sale Proceeds will be used to pay down the amounts owed to General Unsecured Creditors and Cardinal Health (as discussed in greater detail herein and in the Committee Plan).
4. The Reorganized Debtor issues two notes to General Unsecured Creditors (each for \$950,000) and a separate note to Cardinal Health (for \$3,000,000) (collectively, the "*Notes*"). The Cardinal Health Note is secured by a first-priority security interest and the Unsecured Creditor Notes are secured by a second-priority security interest.
5. The Reorganized Debtor pays off the Notes over not more than a five-year period.
6. Once the Notes have been paid off in full, the Purchaser of the Beneficial Interest in the ADM Creditor Trust becomes the owner of the Reorganized Debtor.
7. The ADM Creditor Trust also becomes the owner of certain Avoidance Actions, including, among others, claims against certain of the Debtor's Insiders and Affiliates. The ADM Creditor Trustee pursues the Avoidance Actions for the benefit of General Unsecured Creditors in his business judgment.

8. Administrative Claims, Priority Tax Claims, Other Secured Claims, and Non-Tax Priority Claims are unimpaired and will be paid in full on or as soon as reasonably practical after the Effective Date or receive such other treatment as set forth in the Committee Plan.

The ADM Creditor Trust will be administered by the ADM Creditor Trustee, who will be appointed by the Committee. The ADM Creditor Trustee will, among other things, oversee the operations of the Reorganized Debtor, pursue Avoidance Actions, receive payments on the Unsecured Creditor Notes, and make distributions to Holders of Allowed General Unsecured Claims, in accordance with the Committee Plan and ADM Creditor Trust Agreement.

The Committee Plan will be financed through a combination of Available Cash, Sale Proceeds, Operating Profits from the Reorganized Debtor's future business operations and recoveries from Avoidance Actions and Causes of Action.

B. The Benefits of the Committee Plan

The Committee believes that its plan is in the best interests of creditors for a variety of reasons, and as a result urges creditors to vote for the Committee Plan over the competing Debtor Plan. Specifically, the Committee believes that the Committee Plan is preferable for, among others, the following reasons:

1. General Unsecured Creditors are projected to receive a substantially better recovery under the Committee Plan than under the Debtor Plan.
2. Unlike the Debtor Plan, the Committee Plan proposes an open marketing and auction process for the equity in the Reorganized Debtor in order to maximize value for creditors. The Debtor has previously opposed an open auction process, possibly because the Debtor's existing equity holders are seeking to acquire the equity in the Reorganized Debtor themselves. The Committee believes that the auction structure it is proposing will result in at least \$300,000 dollars for creditors, possibly substantially more than that.

3. The Committee Plan allows for the prosecution of Avoidance Actions – including Insider Actions – by the ADM Creditor Trustee for the benefit of General Unsecured Creditors. Although the full value of the Insider Actions is uncertain at this juncture, the amount of these claims could be quite significant. For example, the Committee believes that the Debtor is entitled to all of the equity of ADM Imaging, Inc. (an entity owned by the Debtor’s equity holders and that has significant assets), and it appears the Debtor holds causes of action against the Debtor’s principals (Sam and Anand Kancherlapalli) and certain of their family members that in the aggregate easily exceed \$1,000,000. The Committee believes that the value of these causes of action is more likely to be realized under the Committee Plan and could further enhance creditor recoveries.

4. If a third-party ends up winning the Auction and being the Purchaser of the Beneficial Interest, there is a possibility that the Notes could be paid off faster due to reduced “general and administrative” costs.

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C. Liabilities And Summary Of Claims Treatment

The Committee estimates that the claims ultimately allowable against the Debtor’s estate under the terms of the Committee Plan and their treatment will approximate the following:³

UNCLASSIFIED CLAIMS

TYPE OF CLAIM	TREATMENT	AMOUNT	EST. OF % RECOVERY
Administrative Claims	Full Payment Unimpaired	\$245,000	100%
Priority Tax Claims	Full Payment Unimpaired	>\$5,000	100%

³ These figures represent the Committee’s best estimate of the amount of Claims that will ultimately be Allowed, and the hypothetical recovery percentages are based on what assets the Committee believes, in its reasonable business judgment, will be available under the Committee Plan to satisfy such claims. Claims, or portions thereof, that the Committee believes can be successfully disputed, have been waived, settled or otherwise will not be allowable have not been included in this analysis. Nothing in the estimates in this Disclosure Statement shall be deemed an admission of any Claim’s validity or otherwise prejudice the viability of any objection to any Claim. Moreover, it is important to note that all these numbers represent are projections of estimated recoveries that are subject to a number of variables, including the amount of allowed claims within any particular Class, as well as other factors including factors related to the Reorganized Debtor’s business operations and general economic conditions. Thus, any estimates of Claims or Interests in this Disclosure Statement may vary from the final amounts allowed by the Bankruptcy Court. Similarly, as a result of the foregoing and other uncertainties which are inherent in the estimates, the estimated recoveries in this Disclosure Statement may vary from the actual recoveries received. In addition, the ability to receive distributions under the Committee Plan depends upon the ability of the Committee to obtain confirmation of the Committee Plan and meet the conditions to confirmation and effectiveness of the Committee Plan, as discussed in herein. Reference should be made to the entire Disclosure Statement and Committee Plan for a complete description of the classification and treatment of Claims against and Interests in the Debtor under the Committee Plan.

CLASSES OF CLAIMS AND INTERESTS

TYPE OF CLAIM	TREATMENT	AMOUNT	EST. OF % RECOVERY
Class 1: Non-Tax Priority Claims	Full Payment Unimpaired	>\$5,000	100%
Class 2: Other Secured Claims	Full Payment Unimpaired	>\$50,000 ⁴	100%
Class 3: Cardinal Health Secured Claim	Partial Payment ⁵ Impaired	\$4.2 million	75%
Class 4: General Unsecured Claims	Partial Payment ⁶ Impaired	\$3.2 million ⁷	<59% ⁸
Class 5: Equity Interests	Canceled	N/A	0%

⁴ This does not include purchase money security interests of equipment lessors whose leases will be assumed under the Committee Plan (and whose security interests will remain in place post-emergence).

⁵ Under the Committee Plan, on the Effective Date, in full satisfaction of the Cardinal Health Secured Claim, the Reorganized Debtor shall: (i) issue the Cardinal Health Note (principal amount \$3,000,000) to Cardinal Health; (ii) pay the Cardinal Health Sale Proceeds to Cardinal Health, (half of which amount shall be applied against the Cardinal Health Note and half of which is not required to be applied against the Cardinal Health Note); and (iii) pay the MDOS Sale Proceeds to Cardinal Health (if not already done), which amount Cardinal Health is not required to apply against the Cardinal Health Note. The Cardinal Health Note will be secured by first-priority liens upon and security interests in the assets of the Reorganized Debtor.

⁶ Each Holder of an Allowed General Unsecured Claim shall be entitled to Pro Rata distributions from the ADM Creditor Trust in accordance with the ADM Trust Agreement and the Committee Plan. The Reorganized Debtor shall make payments to the ADM Creditor Trust in accordance with the terms of the Unsecured Creditor Notes until the earlier to occur of (i) all Holders of Allowed General Unsecured Claims having received 75% of the Allowed amounts of their claims from distributions on the Unsecured Creditor Notes or (ii) the Unsecured Creditor Notes being satisfied in full. On the Effective Date, the ADM Creditor Trust shall also receive (i) the ADM Creditor Trust Sale Proceeds, which amount shall be applied against Unsecured Creditor Note B, and (ii) the Avoidance Actions.

⁷ This \$3.2 million dollar figure is the mid-point between the Debtor’s “low end” estimate of General Unsecured Claims of \$1.6 million (which the Committee believes is unrealistically low for a variety of reasons) and the Committee’s “high end” estimate of \$4.7 million. The Committee believes that a figure around \$3.2 million is about as realistic of an estimate of the aggregate amount of General Unsecured Claims as can realistically be achieved at this time, and it should be noted that all of these amounts exclude the Cardinal Health Deficiency Claim (since it is being waived under the Committee Plan).

⁸ This percentage recovery assumes that General Unsecured Creditors receive the two Unsecured Creditor Notes (\$950,000 each for a total of \$1.9 million). No value has been attributed to the Avoidance Actions given the uncertain value of these claims. However, any affirmative recoveries on the Avoidance Actions—and particularly the Insider Actions—could push the recovery percentage somewhat higher.

All payments to Holders of Allowed Administrative and Priority Tax Claims will be made as set forth in Article 2.2 and 2.3 of the Committee Plan, respectively. Payments to Holders of Allowed Class 1 through 4 Claims will be made in accordance with the provisions applicable to each respective Class as set forth in Articles 4.2–4.5 of the Committee Plan, respectively.

D. Liquidation Analysis

The Committee has prepared a liquidation analysis (the “*Liquidation Analysis*”; a true and correct copy of which is attached hereto as Exhibit B), which shows what the Committee reasonable believes would occur if this Case is converted to one under chapter 7 of the Bankruptcy Code and a trustee is elected or appointed to wind-up the Debtor’s business and liquidate its assets. As reflected in the Liquidation Analysis, the Committee believes that a wind up of the Debtor’s business and liquidation of its assets would result in either no recovery for General Unsecured Creditors or a minimal recovery—certainly far less than General Unsecured Creditors stand to receive under the Committee Plan.

The results of the Liquidation Analysis are not surprising. If the Debtor’s business is wound-down (such that the Debtor stops renewing existing contracts and entering into new contracts), operating revenue will decline and the equity in the Reorganized Debtor will be worth little or nothing. In addition, it is unlikely that Cardinal Health would be willing to compromise its secured claim in a chapter 7 wind-down scenario. For all of these reasons, the Committee believes that if the Debtor’s case was converted to one under chapter 7 and its business was wound-down and liquidated, General Unsecured Creditors would receive little or no recovery on their Claims

Through the Committee Plan, however, it is estimated that Holders of General Unsecured Claims will receive distributions totaling at least 59% of their Allowed Claims over time from the ADM Creditor Trust (and possibly a significantly greater percentage if total Allowed General

Unsecured Claims are less than \$3.2 million). It should be noted, however, that the Committee Plan proposes to make distributions to Holders of General Unsecured Claims based upon, among other things, future Operating Revenues of the Reorganized Debtor generated subsequent to the confirmation of the Committee Plan. It is therefore conceivable (although the Committee believes this to be an unlikely outcome) that the Reorganized Debtor will not generate sufficient Operating Revenue to provide Holders of General Unsecured Claims with a meaningful distribution on their Allowed Claims.

III. ADM's Business

A. History

Founded in 1984 and based in Batavia, Illinois, the Debtor is an Illinois corporation that provides state of the art imaging technologies to hospitals, clinics, cardiologists, internal medicine groups and other health care providers throughout the United States. The Debtor provides comprehensive solutions to its customers in areas such as Nuclear Medicine, PET, CT and MRI. The Debtor generates revenues through leasing of imaging equipment to its customers, imaging equipment servicing, and other imaging equipment financing arrangements. In 2009, the Debtor earned over \$14 million in revenues from operations. As of the Petition Date, the shareholders of the Debtor and the respective percentage of common stock owned by each were as follows:

Sam Kancherlapalli	50%
Anand Kancherlapalli	50%

The Debtor provides imaging technologies for mobile nuclear cardiology, turnkey fixed-site MRI, CT, PET, PET/CT and Nuclear Medicine (the “*Services*”). Prepetition the Debtor had over 35 leases in which the Debtor leases equipment from various financing entities and places them in medical practices for the purpose of providing Nuclear Medicine, PET, CT and MRI

equipment to those practices for their use with the Medical practices patients (the “*Equipment Leases*”). The Debtor also enters into contracts with the individual medical practices to provide Services to the medical practices using the equipment the Debtor leases (the “*Service Contracts*”). Some of the medical practices are guarantors of the Debtors performance under the Leases. PNC Equipment Finance, LLC, as successor to PNCEF, LLC, f/k/a National City Commercial Capital Company, LLC (“*PNC*”) is the financing entity on approximately 20 of the Leases.

B. Post-Petition Activities

Since filing its voluntary petition, the Debtor has made a number of changes in its business operations in order to operate more effectively and profitably and to eliminate unprofitable contracts, which were dragging down its overall financial performance. Some of the notable changes include the following:

1. Prior to the Petition Date, the Debtor operated from three separate leased office locations (the “*Office Leases*”). In bankruptcy, the Debtor rejected the three Office Leases and replaced them with one smaller office lease (the “*Replacement Office Lease*”). The rejection of the Office Leases and their replacement with the Replacement Office Lease resulted in a cost savings for the Debtor.
2. As a result of reductions in reimbursement amounts paid by Medicare and insurance companies for the procedures provided by clinics and hospitals that use equipment provided by the Debtor, some Equipment Leases and Service Contracts had become economically unviable and needed to be rejected. The Debtor has rejected numerous Equipment Leases and Service Contracts such that it should now have only profitable locations.
3. The Debtor and the Committee have worked with counsel for PNC to acquire proper documentation of all the Equipment Leases, to determine the applicable liable parties other than the Debtor, to contact the liable parties other than the Debtor to determine if they are interested in entering into separate leases with PNC, and to work with PNC on renegotiating the Equipment Leases where applicable.

4. The Debtor entered into an agreement to sell certain equipment and its right to service specific accounts in Northern California to MD Office Solutions, Inc. (“MDOS”). On January 10, 2012, the Bankruptcy Court entered an order authorizing the sale of the Sale Assets to MDOS pursuant to § 363(b) and the terms of the APA.
5. The Debtor has reduced labor costs (including associated benefits and payroll taxes).

IV. THE PLAN

A. General Provisions

The following summary of the principal provisions of the Committee Plan is qualified in its entirety by reference to the provisions of the Committee Plan, a copy of which is annexed to this Disclosure Statement as Exhibit A and which is incorporated herein by reference.

In general, a chapter 11 plan (1) divides claims and equity interests into separate classes, (2) specifies the property (or treatment) that each class is to receive under the plan, and (3) contains other provisions necessary to the adjustment of the liabilities of the debtor. Under the Bankruptcy Code, “claims” and “equity interests” are classified rather than “creditors” and “shareholders” because such entities may hold claims or equity interests in more than one class. Accordingly, a claim or interest is classified in a particular class only to the extent that the claim or interest qualifies within the description of the class, and is classified in a different class to the extent the claim or interest qualifies within the description of that different class.

The Committee Plan segregates the various Claims against the Debtor into Unclassified Claims and Classified Claims. The Unclassified Claims consist of Administrative Claims and Priority Tax Claims. The Classified Claims consist of one Class of Non-Tax Priority Claims, two Classes of Secured Claims, one Class of General Unsecured Claims, and one Class of Equity Interests. These Classes take into account the differing nature and priority of Claims against and Interests in the Debtor.

B. Unclassified Claims

In accordance with § 1123(a)(1), Administrative Claims and Priority Tax Claims have not been classified and are unimpaired under the Plan.

1. *Administrative Claims*

Unless otherwise provided for in the Committee Plan and unless already paid pursuant to prior order of the Bankruptcy Court or applicable law, each Holder of an Allowed Administrative Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (A) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Administrative Claim becomes Allowed and (iii) a date agreed to in writing by the Reorganized Debtor and the Holder of such Administrative Claim; or (B) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the Debtor or the Reorganized Debtor, as the case may be, or as the Bankruptcy Court may order.

2. *Priority Tax Claims*

Each Holder of an Allowed Priority Tax Claim shall receive, in the sole discretion of the Reorganized Debtor, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (A) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Priority Tax Claim becomes Allowed and (iii) a date agreed to by the Reorganized Debtor, as the case may be, and the Holder of such Priority Tax Claim; (B) equal Cash payments from the Reorganized Debtor made on the last Business Day of every three (3) month period following the Effective Date, over a period not exceeding six (6) years after the assessment of the tax on which such Claim is based, totaling the principal amount of such Claim plus simple interest on any outstanding

balance from the Effective Date calculated at the interest rate available on ninety (90) day United States Treasuries on the Effective Date; or (C) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the Reorganized Debtor, as the case may be, or as the Bankruptcy Court may order. The Reorganized Debtor shall have the right, in its sole discretion, to prepay at any time any Allowed Priority Tax Claim without premium or penalty of any sort or nature, with the consent of the ADM Creditor Trustee.

3. *United States Trustee Claims*

Bankruptcy fees accrued and payable pursuant to 28 U.S.C. § 1930 through and including the Effective Date shall be paid in full on or before the Effective Date.

C. *Classification and Treatment of Claims and Interests*

As noted above, for purposes of voting on the Committee Plan and making distributions thereunder, the Committee Plan classifies all the Claims and Interests (other than Administrative Claims and Priority Tax Claims) asserted or assertable against the Debtor into separate Classes, and all Claims against and Interests in the Debtor shall be treated under the Committee Plan in the manner set forth below.

1. *Class 1—Non-Tax Priority Claims*

To the extent that these Claims have not already been paid pursuant to prior order of the Bankruptcy Court, each Holder of an Allowed Non-Tax Priority Claim shall receive, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (A) the amount of such unpaid Allowed Claim in Cash on or as soon as reasonably practicable after the later of (i) the Effective Date, (ii) the date on which such Non-Tax Priority Claim becomes Allowed and (iii) a date agreed to by the Reorganized Debtor and the Holder of such Non-Tax Priority Claim;

or (B) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the Reorganized Debtor or as the Bankruptcy Court may order.

2. Class 2—Other Secured Claims

Each Holder of an Allowed Other Secured Claim shall receive, in the sole discretion of the Reorganized Debtor, in full satisfaction, settlement, release, extinguishment and discharge of such Claim: (A) Cash equal to the amount of such Allowed Other Secured Claim on or as soon as practicable after the later of (i) the Effective Date, (ii) the date that such other Secured Claim becomes Allowed and (iii) a date agreed to by the Debtor or the Reorganized Debtor, as the case may be, and the Holder of such Claim; (B) Reinstatement of such Claim; or (C) such other treatment on such other terms and conditions as may be agreed upon in writing by the Holder of such Claim and the Debtor or the Reorganized Debtor, as the case may be, or as the Bankruptcy Court may order.

3. Class 3—Cardinal Health Claim

On the Effective Date, in full satisfaction of the Cardinal Health Secured Claim, the Reorganized Debtor shall: (i) issue the Cardinal Health Note to Cardinal Health; (ii) pay the Cardinal Health Sale Proceeds to Cardinal Health (which amount shall be applied 50% against the Cardinal Health Note, with the remaining 50% not reducing the balance on the Cardinal Health Note); and (iii) pay the MDOS Sale Proceeds to Cardinal Health (if not already paid), which amount Cardinal Health is not required to apply against the Cardinal Health Note. The Cardinal Health Note will be secured by first-priority liens upon and security interests in the assets of the Reorganized Debtor. The Reorganized Debtor will make monthly payments of principal and interest on the Cardinal Health Note until it has been paid in full.

4. Class 4—General Unsecured Claims

Each Holder of an Allowed General Unsecured Claim shall be entitled to Pro Rata distributions from the ADM Creditor Trust in accordance with the ADM Trust Agreement and the Committee Plan. The Reorganized Debtor shall make payments to the ADM Creditor Trust in accordance with the terms of the Unsecured Creditor Notes until the earlier to occur of (i) all Holders of Allowed General Unsecured Claims having received 73% of the Allowed amounts of their claims or (ii) the Unsecured Creditor Notes being satisfied in full. On the Effective Date the ADM Creditor Trust shall also receive (i) the ADM Creditor Trust Sale Proceeds, which amount shall be applied against Unsecured Creditor Note B and (ii) the Avoidance Actions.

Distributions from the ADM Creditor Trust shall be made by the ADM Creditor Trustee in accordance with the ADM Creditor Trust Agreement to the Holders of Class 4 Claims that have been Allowed from time to time on dates determined by the ADM Creditor Trustee, in his or her sole and complete discretion, after the creation of appropriate reserves as determined by the ADM Creditor Trustee in an amount that would be sufficient (i) to make a Pro Rata distribution on account of Disputed Claims that are Class 4 General Unsecured Claims and (ii) to pay in full all fees, costs and expenses rendered by the ADM Creditor Trustee for and on behalf of the holders of Class 4 General Unsecured Claims (including, without limitation, for the pursuit of Avoidance Actions).

5. Class 6—Equity Interests

All Class 5 Equity Interests will be extinguished and Class 5 Equity Interests shall receive no distributions on account of such Interests.

D. Auction of the Beneficial Interest

The Committee will be filing the Sale and Bid Procedures Motion seeking entry of an order establishing the Sale and Bid Procedures which will govern the Auction and Sale of the Beneficial Interest in the ADM Creditor Trust. The Sale and Bid Procedures Motion will be seeking approval of an expedited marketing process, to be followed by the Auction (conducted in accordance with the Sale and Bid Procedures), at which time interested bidders may bid on the right to purchase the Beneficial Interest (with bidding starting at \$300,000). The Auction will occur prior to the Confirmation Hearing, and assuming the Bankruptcy Court approves the result, the Confirmation Order shall grant final approval of the Sale of the Beneficial Interest pursuant to sections 365, 1123(b)(4), 1129(b)(2)(A)(iii), 1145 and 1146(a) of the Bankruptcy Code. Upon Confirmation, the parties shall be authorized to take any and all actions necessary to consummate the Sale.

The Purchaser of the Beneficial Interest – who will need to be acceptable to Cardinal Health and the Committee – will be tasked with managing the Debtor’s post-Effective Date Operations. As more fully set forth in the ADM Creditor Trust Agreement, the Purchaser of the Beneficial Interest will be entitled to: (i) a \$30,000 per year as base management fee for operating the Reorganized Debtor, paid in equal monthly installments; (b) a contingent \$70,000 per year management fee, payable in one lump sum payment after the close of the fiscal year only (a) if all prior payments on the Cardinal Health Note and the Unsecured Creditor Notes have been made in full and (b) to the extent that the payment would not cause the Operating Cushion to drop below \$300,000 (if the \$70,000 management fee cannot be paid in full for a given year, the outstanding balance will be treated as deferred compensation and may be paid after the end of any future fiscal year so long as the above conditions are satisfied); (ii) deferred

compensation of up to \$100,000 per year (in the Purchaser's discretion), payable only after the Cardinal Health and Unsecured Creditor Notes have been paid in full; and (iii) the right to receive 100% of the equity in the Reorganized Debtor once the Cardinal and Unsecured Creditor Notes have been paid in full.

E. Financial Forecasts and Assumptions

Attached to this Disclosure Statement as Exhibit C are the forward looking projections (the "*Projections*") developed by the Committee's financial advisor based on a detailed review of the Reorganized Debtor's cost structure, business model, current operations, and historical performance. The Projections cover the five years following the Effective Date, and include a breakdown of major revenue and expense items over the course of the five-year period (including, among other things, the payments contemplated by the Committee Plan).

As set forth in the Projections, it is anticipated that the Reorganized Debtor will be able to make all of the Effective Date payments required under the Committee Plan, and will further be able to pay off all of its obligations under the Cardinal and Unsecured Creditor Notes over a five-year period.⁹ These payments will be made both from the liquid assets (such as cash and receivables) received by the Reorganized Debtor on the Effective Date and also from Operating Revenues generated by the Reorganized Debtor going forward.

The Projections incorporate reasonable assumptions based on the Debtor's current business operations and historical experience. For example, the Projections assume that the Debtor will be able to renew approximately eight of its existing contracts through 2016, and

⁹ Payments on the Cardinal Note (\$3,000,000) and Unsecured Creditor Note A (\$950,000) will be made on a monthly basis. Payments on Unsecured Creditor Note B will be made within thirty (30) days of the close of each fiscal year, *provided, however*, that payments on the Unsecured Creditor Note B: (a) may only be made to the extent that payment (or partial payment) will not cause the Operating Cushion to drop below \$300,000 and (b) shall cease entirely once sufficient payments have been made such that cumulative distribution to General Unsecured Creditors on the Unsecured Creditor Notes (after accounting for expenses of the ADM Creditor Trust) have reached 75% of the aggregate Allowed amount of such General Unsecured Claims.

assume that the Debtor will only be able to generate approximately three new contracts per year (below historical average). In fact, rather than setting up the Projections to show some revenue growth (which obviously will be a primary objective of the Reorganized Debtor once it emerges from bankruptcy), the Committee took a conservative approach and the Projections basically show flat-line revenue through 2016. The Projections nonetheless show the Reorganized Debtor being able to pay off all of its Note obligations within five years, leaving the Purchaser with a profitable going-concern business (that will actually be holding over \$700,000 in cash once the Note obligations are satisfied).

Despite what the Committee believes to be the reasonable nature of its Projections, the Debtor disputes that the Projections will be achieved. The Debtor thus argues that the higher recoveries proposed in the Committee Plan will not be achievable.

The Committee strongly disagrees with the Debtor's position, and given the crucial nature of this issue for creditors, a bit of background concerning the Debtor's position is necessary. First, it is important to remember that the Debtor's principals have repeatedly expressed a strong interest in retaining ownership of the Reorganized Debtor. This puts the Debtor's existing equity holders in a conflicted position because while they have a fiduciary duty to maximize recoveries for creditors, they also have a strong personal interest in minimizing payments that the Reorganized Debtor will have to make to creditors (since the less the Reorganized Debtors have to pay to creditors, the more the Reorganized Debtor's profits will accrue to equity).

As a result of this conflict of interest, the Committee has been concerned that the Debtor—acting at the behest of its equity holders—might propose a plan and financial projections that did not truly maximize value for creditors. That is exactly what occurred. When

the Committee received financial projections from the Debtor, the projections showed a business that was unable to make significant payments to creditors beyond Cardinal Health out of operations. The Committee was very concerned about the Debtor's projections because they:

1. Essentially showed a wind-down of the Debtor's business in that they assumed that the Debtor would generate no new business in any year and that no contracts would renew.
2. Despite the "wind-down" nature of the revenue projections, the Debtor's projections showed virtually full personnel costs across all years (including a full sales force despite the projections of no new business). In fact, in the last year of the Debtor's projections general and administrative costs were actually higher than cash generated by contracts.
3. Included a \$561,000 error that overstated proceeds available for distribution (plus numerous other errors).
4. Included revenue from North Shore Hematology even though the Debtor knew it was likely to lose (and subsequently lost) this account.
5. Contained an inaccurate beginning cash balance.

After the Committee applied pressure on the Debtor to present more realistic financial projections, the Debtor amended its projections to show some renewals and new contracts—but still not at a level that would justify the cost structure contained in its budget or allow for more value to flow to creditors. At this point, the Committee was forced to hire its own financial advisor to meet with the Debtor, go through the numbers, and come to its own conclusions regarding what the Reorganized Debtor's finances will look like. The result of this process was the Committee Projections.

Although the Debtor now acknowledges that the Committee Projections are accurate in many ways, it continues to dispute several components, enabling it to continue to argue that creditors cannot recover as much as the Committee projects that they can under the Committee Plan. Most significantly, the Debtor assumes that it will spend \$1.3 million on new equipment,

but assumes no cash flow proceeds from the financing or ultimate sale of the equipment. The Committee views this as an unrealistic assumption given that, among other things, the Debtor has historically financed equipment purchases (often at 100%), and the Committee believes such financing continues to be available.

The bottom line is that while there is inherent risk in all projections, the Committee fully believes that the Committee Projections more accurately reflect what the Reorganized Debtor's financial picture will look like over the next five years.¹⁰

F. Summary of Other Plan Provisions

1. Funding

The Committee Plan contemplates that Available Cash and the Sale Proceeds will be used to fund all of the Effective Date obligations under the Committee Plan. Additionally, payments to Holders of Allowed Claims will be made by the Reorganized Debtor, pursuant to the terms of the Committee Plan and the ADM Creditor Trust Agreement, from Available Cash and Operating Revenues going forward. The Reorganized Debtor will make all of the payments required to be made under the Committee Plan on account of Administrative Claims, Priority Tax Claims, and Class 1–3 Claims, if applicable, whether on the Effective Date or thereafter (and will make required payments to the ADM Creditor Trust). The ADM Creditor Trustee shall make all payments required to be made under the Plan on account of Claims in Class 4. All fees, costs and expenses incurred by the ADM Creditor Trustee shall be payable solely from the ADM Creditor Trust pursuant to the terms of ADM Creditor Trust Agreement.

¹⁰ Although as with all projections, it is possible that the Reorganized Debtor could do worse than projected, in the Committee's view there is just as good of a chance that the Debtor will exceed the Committee Projections (and possibly pay off the Notes substantially sooner than anticipated). Not only could a better result be potentially achieved through better than anticipated sales, if a party other than existing equity ends up being the Purchaser of the Beneficial Interest, the Committee believes that there could be very significant cost savings through the consolidation of administrative and accounting functions. These savings alone could potentially significantly increase the Reorganized Debtor's Operating Profits and result in the Reorganized Debtor being able to pay off some or all of the Notes prior to maturity.

2. Formation of the ADM Creditor Trust

The ADM Creditor Trust will be established to receive on the Effective Date the New Equity, the ADM Creditor Trustee Payments, the Unsecured Creditor Notes, the ADM Creditor Trust Sale Proceeds, and the Avoidance Actions,¹¹ all of which assets shall vest in the ADM Creditor Trust on the Effective Date free and clear of all Claims, encumbrances and interests in accordance with section 1141 of the Bankruptcy Code, but subject to the rights of Holders of Allowed Class 4 General Unsecured Claims to obtain the distributions as provided for in the Committee Plan and in the ADM Creditor Trust Agreement.

3. Powers and Appointment of ADM Creditor Trustee

The ADM Creditor Trustee shall be appointed by the Committee, shall administer the ADM Creditor Trust and its assets in accordance with the Committee Plan and the ADM Creditor Trust Agreement and shall be responsible for, among other things, pursuing, in its business judgment, the Avoidance Actions and making distributions to Class 4 General Unsecured Creditors in accordance with the Committee Plan and ADM Creditor Trust Agreement. From and after the Effective Date and continuing until such time as all of the Reorganized Debtor's obligations to the ADM Creditor Trust have been satisfied and the assets of the ADM Creditor Trust have been fully administered, the ADM Creditor Trustee shall, among other things: (i) possess the rights of a party in interest pursuant to section 1109(b) of the Bankruptcy Code for all matters arising in, arising under, or related to the Case and, in connection therewith, shall: (a) have the right to appear and be heard on matters brought before the Bankruptcy Court or other courts; (b) be entitled to notice and opportunity for hearing on all

¹¹ Avoidance Actions are Causes of Action against Persons arising under §§ 502, 510, 541, 542, 545, 547 through 551 and 553 of the Bankruptcy Code, or under related state or federal statutes and common law, including fraudulent transfer laws, whether or not litigation is commenced before or after the Effective Date to prosecute such Avoidance Actions. The Avoidance Actions include the Insider Actions.

such issues; (c) participate in all matters brought before the Bankruptcy Court, (d) have the right to object to and to pursue objections to Class 4 General Unsecured Claims (whether scheduled or filed with the Court); and (e) receive notice of all applications, motions, and other papers and pleadings filed in the Bankruptcy Court; (ii) have full authority to pursue, appear in, and otherwise prosecute the Avoidance Actions; (iii) have the authority to oversee the operations of the Reorganized Debtor as more fully set forth in the ADM Creditor Trust Agreement; and (iv) have the authority to retain such personnel or professionals (including, without limitation, the professionals that have provided professional services to the Committee prior to the Effective Date) as it deems appropriate and compensate such personnel and professionals as it deems appropriate, all without prior notice to or approval of the Bankruptcy Court. Professionals and personnel retained or employed by the ADM Creditor Trust or the ADM Creditor Trustee need not be disinterested as that term is defined in the Bankruptcy Code.

4. *Cancellation of Old Equity and Issuance of New Equity*

On the Effective Date of the Plan, all of the existing equity in the Debtor will be canceled, and the Debtor will issue new equity, 100% of which will be transferred to and vest in the ADM Creditor Trust.

5. *Transfer of Assets to the Reorganized Debtor*

Other than as specifically set forth in the Committee Plan, on the Effective Date, all of the Debtor's right, title and interest in and to its assets shall vest in the Reorganized Debtor, except for the Avoidance Actions, which shall be transferred to and shall vest in the ADM Creditor Trust, and any other assets which shall vest in the ADM Creditor Trust pursuant to the express provisions of the Committee Plan.

6. *Affirmative and Negative Covenants, Taxes*

Until such time as all repayment promises have been fully satisfied as provided in the Committee Plan, the Reorganized Debtor and Purchaser shall be required to comply with the Affirmative Covenants and Negative Covenants set forth in **Articles 6.12 and 6.13** of the Committee Plan. The Debtor and the ADM Creditor Trustee shall be required to comply with the tax reporting requirements of **Article 6.14** of the Committee Plan.

7. *Auction and Sale of the Beneficial Interest*

Shortly after filing this Disclosure Statement, the Committee will be filing the Sale and Bid Procedures Motion seeking entry of an order establishing the Sale and Bid Procedures which will govern the Auction and Sale of the Beneficial Interest in the ADM Creditor Trust. The Sale and Bid Procedures Motion will be seeking approval of an expedited marketing process, to be followed by the Auction (conducted in accordance with the Sale and Bid Procedures), at which time interested bidders may bid on the right to purchase the Beneficial Interest (with bidding starting at \$300,000). The Auction will occur prior to the Confirmation Hearing, and assuming the Bankruptcy Court approves the result, the Confirmation Order shall grant final approval of the Sale of the Beneficial Interest pursuant to sections 365, 1123(b)(4), 1129(b)(2)(A)(iii), 1145 and 1146(a) of the Bankruptcy Code. Upon Confirmation, the parties shall be authorized to take any and all actions necessary to consummate the Sale.

8. *Allocation of Sale Proceeds*

On the Effective Date the Sale Proceeds shall be paid to Cardinal Health and the ADM Creditor Trust (with Cardinal Health receiving the Cardinal Health Sale Proceeds, which it shall apply 50% to the principal balance of the Cardinal Health Note (with the remaining 50% not required to be applied against or pay down the Cardinal Health Note), and the ADM Creditor

Trust receiving the ADM Creditor Trust Sale Proceeds, which it shall apply to the principal balance of the Unsecured Creditor Note B).

9. *Rights Associated with the Beneficial Interest*

As more fully set forth in the ADM Creditor Trust Agreement, the Purchaser of the Beneficial Interest will be entitled to: (i) a \$30,000 per year as base management fee for operating the Reorganized Debtor, paid in equal monthly installments; (b) a contingent \$70,000 per year management fee, payable in one lump sum payment after the close of the fiscal year only (a) if all prior payments on the Cardinal Health Note and the Unsecured Creditor Notes have been made in full and (b) to the extent that the payment would not cause the Operating Cushion to drop below \$300,000 (if the \$70,000 management fee cannot be paid in full for a given year, the outstanding balance will be treated as deferred compensation and may be paid after the end of any future fiscal year so long as the above conditions are satisfied); (ii) deferred compensation of up to \$100,000 per year (in the Purchaser's discretion), payable only after the Cardinal Health and Unsecured Creditor Notes have been paid in full; and (iii) the right to receive 100% of the equity in the Reorganized Debtor once the Cardinal and Unsecured Creditor Notes have been paid in full.

10. *Release of Cardinal Claims*

On the Effective Date, the Cardinal Claims will be automatically released and discharged in their entirety, and the Debtor, Committee, and the ADM Creditor Trustee shall be deemed to have no further causes of action against or right to pursue claims against Cardinal Health that arose prior to the Effective Date.

11. *Compromise of Cardinal Health Causes of Action*

Prior to the bankruptcy filing, certain UCC termination statements were filed by a third party with respect to the security interests of Cole Taylor and Cardinal Health. While the Debtor's estate and/or the Committee could potentially argue that Cardinal Health is thus an unsecured creditor, which would not only significantly alter creditor recoveries hereunder, it would also give rise to a potential cause of action to avoid and recover \$315,536.14 that Cardinal Health received in the ninety (90) days preceding the Petition Date. In light of the cost, risks, and uncertainties of litigation, however, the Committee Plan proposes to compromise the Cardinal Health Causes of Action in exchange for Cardinal Health accepting its treatment under the Committee Plan (including accepting the Cardinal Health Note and waiving the deficiency claim that would otherwise likely exist).

12. *Executory Contracts and Unexpired Leases*

Unless expressly noted otherwise in Article VII of the Committee Plan, all executory contracts and unexpired leases of Debtor shall be deemed automatically assumed pursuant to § 365 as of the Effective Date, unless such executory contract or unexpired lease (i) shall have been previously rejected by the Debtor by prior order of the Bankruptcy Court or (ii) is listed on the schedule of executory contracts or unexpired leases to be rejected attached to the Committee Plan. The procedures for resolution of any objections to assumption of executory contracts and unexpired leases and cure payments is set forth in **Articles 7.2 and 7.4** of the Committee Plan. The procedures and bar date for filing claims arising out of the rejection of executory contracts and unexpired leases pursuant to the Plan are set forth in **Article 7.3** of the Committee Plan.

13. *Preservation of Rights*

Except to the extent that any Claim is Allowed in an amount set forth in the Plan, nothing shall affect, prejudice, diminish or impair the rights and legal and equitable defenses of the Debtors, the Reorganized Debtors or the ADM Creditor Trustee with respect to any Claim or Interest, including, without limitation, all rights of the Debtors, the Reorganized Debtors or the ADM Creditor Trustee (i) to contest or defend themselves against such Claims or Interests in any lawful manner or forum when and if such Claim or Interest is sought to be enforced by the Holder thereof or (ii) in respect of legal and equitable defenses to setoffs or recoupments against Claims or Interests, in accordance with the powers vested to such Persons under the Plan. The distributions provided for in **Article IV** of the Plan shall at all times be subject to **Article IX** of the Plan and to § 502(d).

14. Objection Deadline

Objections to Claims may be filed by the Debtor or the Reorganized Debtor, except with respect to objections to Class 4 Claims, which may also be filed by the ADM Creditor Trustee. Objections to Claims, or complaints or motions to subordinate or estimate Claims, shall be filed with the Bankruptcy Court, and served on the Holders of such Claims or Interests to which objection is made, no later than ninety (90) days after the Effective Date with respect to all Claims other than Class 4 Claims which may be made no later than two hundred seventy (270) days after the Effective Date, unless otherwise ordered by the Bankruptcy Court. The Debtor and Reorganized Debtor shall expressly apprise and/or cooperate with Cardinal Health and/or the ADM Trustee on objections to any Claims which could materially impact the calculation of Operating Profits, Operating Revenue or Operating Expenses for purposes, with the ADM Creditor Trustee having express standing to participate in the Claims resolution process contemplated hereunder.

15. Administrative Claims Bar Date

All requests for allowance and/or payment of an Administrative Claim, other than amounts due professionals, must be filed with the Bankruptcy Court and served on counsel for the Reorganized Debtor no later than forty-five (45) days after the Effective Date. Notwithstanding the foregoing, no request for allowance and/or payment of an Administrative Claim need be filed with respect to an Administrative Claim if not disputed by the Reorganized Debtor and is paid as an Operating Expense in the ordinary course of business. Any Administrative Claims filed after this bar date shall be automatically deemed Disallowed in full.

16. Professional Fee Claims

All Professional Persons retained or requesting compensation for services rendered in the Case prior to the Effective Date, pursuant to §§ 327, 328, 330, 331, 503 or 1103 (“**Professional Fee Claims**”), shall be entitled to file an application for allowance of final compensation and reimbursement of expenses until not later than sixty (60) days after the Effective Date, or such later date which the Bankruptcy Court finds will not unduly delay the administration of the Case. Objections to each such application, if any, must be written, filed with the Court and served on the applicable parties within twenty (20) days after such application is filed.

17. Satisfaction of Claims

Except as expressly provided in the Committee Plan or the Confirmation Order, all Claims against the Debtor shall be satisfied by the distributions or treatments received under the Committee Plan. Further, except as expressly provided in the Committee Plan or the Confirmation Order, all Holders shall be precluded from asserting against the Reorganized Debtor, or its assets, or the ADM Creditor Trust, or its assets, any further Claim based on any

act, omission, transaction or activity of any kind or nature that occurred before the Confirmation Date, whether or not such holder filed a proof of claim in this Case.

18. Discharge of Interests

Except as provided for in the Plan, all holders of Interests shall be precluded from asserting against the Reorganized Debtor, or its assets, or the ADM Creditor Trust, or its assets, on account of such Interests, any further right, title or interest based on any act, omission, transaction or activity of any kind or nature that occurred before the Effective Date, whether or not such holder filed a proof of interest in Case.

19. Injunction

As of the Effective Date, all entities that have held, currently hold or may hold a Claim against the Debtor are permanently enjoined from taking any of the following actions on account of any such Claim against the Reorganized Debtor or the ADM Creditor Trust except as provided in the Plan or the Confirmation Order: (1) commencing or continuing in any manner any actions or other proceedings; (ii) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order; (iii) creating, perfecting or enforcing any lien or encumbrance; and (iv) asserting a setoff, right of subrogation or recoupment of any kind against any debt, liability or obligation.

20. Waiver of Claims Against Plan Distributions

Except as provided in the Committee Plan, as of the Effective Date, each Creditor, by virtue of the Final Order confirming the Committee Plan, waives and relinquishes any and all rights with respect to distributions made or to be made under the Committee Plan to any other Creditor on account of claims against the Debtor.

21. *Exculpation and Indemnification*

None of the Debtor, the Committee, nor any of their respective present or former members, officers, directors, employees, advisors, or attorneys (collectively, the “*Indemnified Persons*”) shall have or incur any liability to any Holder of a Claim or an interest, or any other party in interest, or any of their respective agents, employees, representatives, financial advisors, attorneys, affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of, the Case, formulating, negotiating or implementing the Committee Plan, the pursuit of confirmation of the Committee Plan, the confirmation of the Committee Plan, the consummation of the Committee Plan, or the administration of the Committee Plan or the property to be distributed under the Committee Plan (including the distributions), except for their gross negligence or willful misconduct, and in all respects shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Committee Plan. To the fullest extent permitted by applicable law, the Reorganized Debtor will indemnify, hold harmless, defend and reimburse the Indemnified Persons and each of their designated representatives from and against any and all losses, claims, causes of action, damages, fees, expenses, liabilities and actions, for any act or omission in connection with, relating to, or arising out of, the Case, formulating, negotiating or implementing the Committee Plan, the pursuit of confirmation of the Committee Plan, the confirmation of the Committee Plan, the consummation of the Committee Plan, or the administration of the Committee Plan or the property to be distributed under the Committee Plan (including the distributions), except for gross negligence or willful misconduct as determined by a Final

Order. All rights of the Indemnified Persons exculpated and indemnified pursuant hereto shall survive confirmation of the Committee Plan and the closing of the Case.

V. The Solicitation; Voting Procedures

A. Voting Deadline

On [____], 2012, the Court set a joint confirmation hearing on the Committee and Debtor Plans for [____], 2012 at [____] [__].m. prevailing central time (the “*Hearing*”) and authorized the Debtor and the Committee to commence their solicitation of votes to accept or reject their respective Plans pursuant to the provisions thereof. Accordingly, the Court required the Debtor and the Committee to serve copies of their respective Plan, Disclosure Statement, ballots and Notice of the Hearing to all Creditors and other parties in interest in the Debtor’s Case no later than [____], 2012, In that regard, the Bankruptcy Court fixed [____] [__].m., prevailing central time, on [____], 2012, (the “*Voting Deadline*”) as the date and time by which ballots to accept or reject the Plan by Creditors entitled to vote must be filed with the Clerk of the United States Bankruptcy Court for the Northern District of Illinois (the “*Clerk of the Court*”), 219 S. Dearborn Street, 7th Floor, Chicago, IL, 60604.

UNLESS YOUR BALLOT IS PROPERLY COMPLETED AND FILED WITH THE CLERK OF THE COURT ON OR BEFORE [____] [__].M., PREVAILING CENTRAL TIME, ON [____], 2012, YOUR VOTE WILL NOT BE COUNTED.

B. Voting Procedure

This Disclosure Statement (and the Exhibits hereto), together with an accompanying ballot, are being furnished to all Creditors and parties in interest. All votes to accept or reject the Committee Plan must be cast by using the accompanying ballot. The ballot must be properly completed in accordance with the instructions thereon, indicating the Claim Class under which

the ballot is being cast, whether the vote is cast to accept or reject the Committee Plan, and must be signed by the Creditor or the Creditor's authorized agent, and filed with the Clerk of the Court on or before the Voting Deadline at the address set forth above. Any Creditor holding a Claim in more than one Class that is entitled to vote on the Committee Plan must cast a separate ballot within each Class, which ballot specifies the Class in which it is being cast and the amount of its Claim that falls within that Class. If a ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should indicate such capacity when signing and attach proper evidence of his or her authority to so act.

ANY BALLOT NOT PROPERLY COMPLETED OR NOT RECEIVED ON OR BEFORE THE VOTING DEADLINE WILL NOT BE COUNTED.

C. Withdrawal of Ballots; Change of Votes

Any Creditor entitled to vote on the Committee Plan that has timely delivered a properly completed ballot may withdraw such acceptance or rejection by filing a written notice of withdrawal with the Clerk of the Court at any time prior to the Voting Deadline. To be valid, a notice of withdrawal must (a) be signed by the Creditor in the same manner as the ballot was signed, (b) have attached a true and correct copy of the completed ballot being withdrawn, and (c) be filed with the Clerk of the Court, at the address set forth above, prior to the Voting Deadline. A purported notice of withdrawal of ballot which is not properly completed or timely filed will not be effective to withdraw a previously furnished ballot.

Any Creditor that has timely filed with the Clerk of the Court a properly completed ballot may revoke such ballot and change its vote by filing with the Clerk of the Court, prior to the Voting Deadline, a subsequent, properly completed ballot. In the case where more than one

timely, properly completed ballot is filed in respect of the same Claim, only the ballot that bears the latest date will be counted for purposes of determining acceptance or rejection of the Committee Plan.

D. Acceptance and Confirmation

As a condition to confirmation, the Bankruptcy Code requires that each impaired class of claims or interests accept the plan, with the exceptions described below. The Bankruptcy Code defines acceptance of the plan by a class of claims as acceptance by holders of two-thirds in dollar amount and a majority in number of claims of that class. However, for purposes of this calculation, only claimants who actually vote to accept or reject the plan are counted. Holders of claims who fail to vote are not counted as either accepting or rejecting the plan.

Classes of claims or interests that are not “impaired” under the Plan are deemed by the Bankruptcy Code to have accepted the Plan, and those classes are not entitled to cast ballots. Acceptances of the Debtor Plan are being solicited only from those persons who hold Claims of impaired Classes and are entitled to vote with respect to the Plan. A class is “impaired” if the legal, equitable or contractual rights attaching to the claims or interests of that class are modified, other than by curing defaults and reinstating maturities, or by payment in full in cash. Classes 1 and 2 are not impaired under the Committee Plan. Accordingly, holders of Claims in Classes 1 and 2 will not be entitled to vote. Classes 3, 4, and 5 are impaired. Creditors holding Claims in Classes 3, and 4 will be entitled to vote to accept or reject the Committee Plan. Interests in Class 5 are not receiving any property on account of their interests and thus are deemed to reject the Committee Plan and are not entitled to vote. Claims, for voting purposes only, will be set at the higher of the scheduled or as filed amount; *provided, however*, with respect to a Claim as to which the Debtor has filed and served an objection prior to the Voting Deadline, such Claim

shall be disallowed to the extent of such objection for voting purposes, unless the holder of such Claim obtains an Order of the Bankruptcy Court prior to the Voting Deadline allowing such Claim for voting purposes in a fixed amount. The failure of the Debtor to file an objection to a Claim prior to the Effective Date shall not prejudice the right of the Debtor, Reorganized Debtor, or ADM Creditor Trustee to subsequently file an objection to such Claim. In addition, failure of a Claim holder to obtain, prior to the Voting Deadline, an order of the Bankruptcy Court allowing its Claim for voting purposes shall not affect the right of such Claim holder to a full adjudication of its Claim pursuant to applicable provisions of the Bankruptcy Code and Bankruptcy Rules.

In determining whether the Committee Plan has been accepted by the requisite number of Creditors, votes will be counted only in respect of Claims (a) with respect to which the holder of the Claim has submitted a proof of claim prior to the applicable time previously fixed therefor by the Bankruptcy Court, and (b) which have not been disallowed or disallowed for voting purposes by the Court, prior to the confirmation hearing.

THE BALLOT FORM PROVIDED WITH THIS DISCLOSURE STATEMENT IS NOT A PROOF OF CLAIM.

The Bankruptcy Code also contains provisions for confirmation of a plan that is not accepted by all impaired classes, as long as at least one impaired class of claims has voted to accept it. Section 1129(b) provides that the plan may be confirmed if certain requirements are met, even though a class of creditors votes to reject the plan. The Committee will seek confirmation of the Committee Plan pursuant to § 1129(b) in the event of the Committee Plan's rejection by any impaired Class of Creditors. The Bankruptcy Court will set a hearing to determine whether the Committee Plan has been accepted by the requisite number of holders of

Claims and whether the other requirements for confirmation of the Committee Plan have been satisfied. Each holder of a Claim or Interest will receive, either with this Disclosure Statement or separately, the Bankruptcy Court's notice of hearing on confirmation of the Committee Plan.

VI. Tax Consequences

The Debtor has not sought or obtained rulings from the Internal Revenue Service or any state or local taxing authority with respect to the tax consequences, if any, of the Committee Plan and the transactions contemplated under either of the foregoing. **CREDITORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES TO THEM UNDER FEDERAL AND APPLICABLE STATE AND LOCAL TAX LAWS OF THE CONSUMMATION OF THE COMMITTEE PLAN.**

VII. Alternatives to Confirmation and Consummation of The Plan

If the Committee Plan is not confirmed, the Debtor's alternatives include: (a) The Continuation of the Debtor's Chapter 11 Case; (b) confirmation of the Debtor's competing plan of reorganization or (c) conversion of the Case to chapter 7 of the Bankruptcy Code, with appointment of a Chapter 7 trustee or trustees and liquidation of the Debtor thereunder.

A. Continuation of the Debtor's Chapter 11 Case

If the Debtor remains in chapter 11, the Debtor could continue to operate its business and manage its properties as debtor in possession, but it would remain subject to the restrictions imposed by the Bankruptcy Code. It is not clear whether the Debtor could continue long-term as a viable going-concern in a protracted Chapter 11 Case. Although a relatively short continuance of the Case would probably not be materially harmful, if the Debtor remains in chapter 11 for an extended period of time, it could have difficulty as the confidence of its employees, customers and trade vendors could erode.

B. Confirmation of the Debtor's Competing Plan of Reorganization

As discussed herein (*see, e.g.*, Section II(B), above), the Committee believes that the Committee Plan provides the best option for restructuring the Debtor and provides a substantially better recovery for the Debtor's creditors, particularly the Debtor's General Unsecured Creditors, than does the competing Debtor Plan. As such, the Committee believes that confirmation of the Committee Plan is preferable to confirmation of the Debtor Plan.

C. Chapter 7 Liquidation

If the Debtor, the Committee, or the Bankruptcy Court determines that no plan of reorganization could be negotiated, proposed, and confirmed within a reasonable amount of time, the Case could be converted to a liquidation case under chapter 7 of the Bankruptcy Code. In such event, a trustee would be elected or appointed to wind-down and/or liquidate the Debtor's business operations and assets. The proceeds of the liquidation would be distributed to Creditors in accordance with the priorities set forth in the Bankruptcy Code. It is the Committee's belief that a liquidation would likely result in General Unsecured Creditors receiving no distribution or at best a small distribution, substantially less than General Unsecured Creditors could potentially recover under the Committee Plan (see attached Liquidation Analysis).

Given these alternatives, the Committee believes that the Committee Plan, as described in this Disclosure Statement, provides the optimum return to Holders of Claims in this Case in comparison with the foregoing potential alternatives.

VIII. Recommendations and Conclusion

This Disclosure Statement, which must be read in conjunction with the Plan, contains, among other things, an accurate and detailed summary of the history of Debtor, summary of the Committee Plan, an outline of the Reorganized Debtor's projected post-confirmation finances,

and a discussion of the process for confirming the Committee Plan. Creditors and parties in interest are cautioned, however, that the provisions of the Committee Plan are complex, and that reference should be made to the Committee Plan itself for a proper understanding and analysis of its terms and provisions. **ALL HOLDERS OF CLAIMS ARE URGED TO READ THE COMMITTEE PLAN CAREFULLY.**

The Committee believes that the confirmation and consummation of the Committee Plan is fair, equitable and reasonable, and will provide creditors – particularly Cardinal Health and General Unsecured Creditors – with a better recovery than under the competing Debtor Plan. Accordingly, the Committee urges Creditors to vote to accept the Committee Plan by filing with the Clerk of the Court their properly completed ballots on or before [____] [__].m., prevailing central time, on [_____], 2012.

Respectfully submitted,

Official Committee of Unsecured Creditors
of American Diagnostic Medicine, Inc.

Dated: January 17, 2012

By: /s/ Michele Draper
Michele Draper, Committee Chair

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