

**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
JOINT CHAPTER 11 PLAN OF REORGANIZATION OF
AMERICAN DIAGNOSTIC MEDICINE, INC.**

July 10, 2012

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**THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE 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 PLAN
MAY OCCUR ONLY AFTER THE BANKRUPTCY COURT
APPROVES THIS DISCLOSURE STATEMENT.**

I. Introduction

On January 28, 2011, American Diagnostic Medicine, Inc.¹ – a leading provider of advanced medical imaging technologies -- voluntarily filed for chapter 11 bankruptcy protection. The goal of the bankruptcy was to address certain unprofitable leases (which had become unprofitable largely due to a decrease in Medicare reimbursements), restructure and clean up its balance sheet, and generally position itself for continued growth. During the bankruptcy, ADM has continued to manage its own affairs as a “debtor in possession.”²

Approximately two months after the bankruptcy filing, an Official Committee of Unsecured Creditors (the “*Committee*”) was appointed to represent the interests of ADM’s unsecured creditors.³ Over the past fifteen months, the Committee, ADM, and Cardinal Health -- ADM’s main secured creditor – have been actively engaged in negotiations over how best to maximize creditor recoveries. The attached *Joint Chapter 11 Plan of Reorganization of American Diagnostic Medicine, Inc.*, a copy of which is attached hereto as Exhibit A, is the result of those negotiations. The Debtor and the Committee submit this Disclosure Statement pursuant to § 1125 to each known holder of an impaired Claim or Equity Interest in order to provide information adequate to allow each such party to make an informed decision whether to vote for or against the Plan.

¹ Except as otherwise defined herein, capitalized terms herein shall have the meanings ascribed to them in the Plan.

² ADM’s authority to act as a debtor in possession derives from §§ 1107(a) and 1108 of the Bankruptcy Code (unless otherwise indicated, all references to statutory provisions herein are intended as references to provisions of the Bankruptcy Code).

³ The Office of the United States Trustee appointed the Committee on March 28, 2011.

THE DEBTOR AND THE COMMITTEE URGE ALL HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN TO VOTE TO ACCEPT THE PLAN

The Debtor and the Committee believe that the Plan represents the best means of reorganizing the Debtor and is in the best interests of creditors. Accordingly, Holders of Claims who are entitled to vote on the Plan are urged to vote in favor of the Plan (*and it is very important that Holders of Claims who are entitled to vote do in fact vote*). Voting instructions are set forth at pages 41 to 46 of this Disclosure Statement. To be counted, your ballot must be duly completed, executed and received by 5:00 p.m. on June 28, 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 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 Plan, other exhibits annexed hereto, and other documents referenced as filed with the Bankruptcy Court prior to or substantially contemporaneously with the filing of this Disclosure Statement. If any descriptions contained in this Disclosure Statement are inconsistent with the terms of the Plan, the terms of the Plan shall prevail.

Except as otherwise indicated herein, the factual and financial information contained herein (including the exhibits hereto) regarding ADM, its businesses, and claims against ADM in this Case have generally been taken from or are based upon information from ADM'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 Debtor and the Committee have taken reasonable steps under the circumstances to ensure that such information

is accurate, the Debtor and its professional advisors, including its counsel, and 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 Plan. Any representations or inducements made to secure your acceptance or rejection of the 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 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 Debtor and the Committee will furnish to creditors entitled to vote on acceptance of the 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 Plan.

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

A. Narrative

The 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 partial payment of allowed Claims in three Classes – the Cardinal Health Secured Claim, the Contingent PNC Rejection Claims, and Allowed General Unsecured Claims – over time from operations of Reorganized Debtor (largely via payments on three creditor notes). Distributions to Contingent PNC Rejection Claims and Allowed General Unsecured Claims will be made from a creditors’ trust (defined in the Plan as the “ADM Creditor Trust”). This is accomplished, in significant part, as follows:

1. Existing ownership interests (equity) in the Debtor will be canceled on the Effective Date and New Equity in the Reorganized Debtor will be issued to either: (i) Sam and Anand Kancherlapalli (the Holders of the Existing Equity in ADM) or (ii) if a Qualified Bid is received prior to the Qualified Bid Deadline, either (a) the person or entity submitting such Qualified Bid (if only one Qualified Bid is received by the Existing Equity Bid Deadline) or (b) the high bidder at an Auction to be held for the New Equity (in the event more than one Qualified Bid is received by the Existing Equity Bid Deadline). The minimum value of any Qualified Bid will be \$300,000. If a Qualified Bid is received, any cash sale proceeds will be used to pay down the Cardinal Health Note (discussed below).
2. In either scenario, the person or entity who ends up becoming the Holder of the New Equity (defined in the Plan as the “New Equity Holder”) is required to pledge the New Equity to the ADM Creditor Trust as additional security for the Reorganized Debtors’ obligations under the Unsecured Creditor Notes (discussed below). The New Equity Holder cannot exercise voting rights associated with the New Equity, but subject to the terms of the Plan, generally receives the right to manage the Reorganized Debtor, receive certain payments for doing so, and to own the New Equity free of the pledge once the Unsecured Creditor Notes are paid in full.
3. The Creditor Trust will be formed pursuant to the Creditor Trust Agreement and Plan to accept the Unsecured Creditor Notes and certain other assets (including, among others, certain Avoidance Actions and, if

an Auction occurs and Existing Equity is not the winning bidder, certain Insider Causes of Action).

4. The Reorganized Debtor will issue three notes (collectively, the “Notes”), one to Cardinal Health (for \$3,000,000) and two to the ADM Creditor Trust for the benefit of Contingent PNC Rejection Claims and General Unsecured Claims (for \$650,000 and \$1,250,000, respectively). The Cardinal Health Note will be secured by a first-priority security interest in and lien on the Reorganized Debtors assets and the Unsecured Creditor Notes will be secured by a second-priority security interest in and lien on the same assets. An Intercreditor Agreement will govern certain of the rights of Cardinal Health and the ADM Creditor Trust under the Notes.
5. The Reorganized Debtor will pay off the Notes over not more than a five-year period. Once the Unsecured Creditor Notes have been fully and finally paid off, the New Equity Holder’s pledge of the New Equity to the ADM Creditor Trust will be of no further force and effect.
6. The ADM Creditor Trust will receive payments on the Unsecured Creditor Notes also has the right to, among other things, pursue Avoidance Actions⁴ and, if applicable, Insider Causes of Action. The ADM Creditor Trust will also be involved in objecting to Contingent PNC Rejection Claims and General Unsecured Claims. Assuming sufficient proceeds are received, the ADM Creditor Trustee will from time to time make distributions to Allowed Contingent PNC Rejection Claims and General Unsecured Claims. The costs of administration of the ADM Creditor Trust will be paid from certain annual ADM Creditor Trust Payments or, if these are insufficient, other assets of the ADM Creditor Trust.
7. 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 Plan.

The ADM Creditor Trust will be administered by the ADM Creditor Trustee. As noted, the ADM Creditor Trustee will, among other things, oversee the operations of the Reorganized Debtor, pursue Avoidance Actions, receive payments due to the ADM Creditor Trust (including

⁴ Avoidance Actions are Causes of Action against Persons arising under sections 502, 510, 541, 542, 544, 545, 547 through 551 and 553 of the Bankruptcy Code, or under related state or federal statutes and common law, (including, without limiting the generality of the foregoing, fraudulent transfer laws, to the extent made applicable by section 544 of the Bankruptcy Code), whether or not litigation is commenced before or after the Effective Date to prosecute such Avoidance Actions, all of which shall be retained by the Debtors, and transferred to the ADM Creditor Trust pursuant to the Plan, but specifically excluding, the Insider Causes of Action in the event that Sam and Anand Kancherlapalli become the New Equity Holders (in which case the Insider Causes of Action are released under the Plan) .

on the Unsecured Creditor Notes), and make distributions to Holders of Allowed Class 4 Contingent PNC Rejection Claims and Class 5 General Unsecured Claims, in accordance with the Plan and ADM Creditor Trust Agreement.

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

B. The Benefits of the Plan

The Debtor and the Committee believe that the Plan is in the best interests of creditors for a variety of reasons, and as a result urge creditors to vote for the Plan. Specifically, the Debtor and the Committee believe that the Plan is preferable for, among others, the following reasons:

1. General Unsecured Creditors are projected to receive a substantially better recovery under the Plan than under a chapter 7 liquidation.
2. The Plan proposes an open marketing and auction process for the New Equity in the Reorganized Debtor in order to maximize value for creditors. Not only will this help to "test the market," if a Qualified Bid is received, it should result in at least an additional \$300,000 dollars to pay creditor claims (or assets worth \$300,000).
3. The Plan allows for the prosecution of Avoidance Actions by the ADM Creditor Trustee for the benefit of Holders of Allowed Contingent PNC Rejection Claims and General Unsecured Claims. In addition, depending on who becomes the New Equity Holder, the ADM Creditor Trustee may have the right to pursue the Insider Causes of Action.⁵

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⁵ If the Holders of Existing Equity (Sam and Anand Kancherlapalli) become the Holder of the New Equity, all of the Insider Causes of Action shall be deemed released on the Effective Date, with the limited exception of the Cardinal Health Guaranty which shall be subject to the Cardinal Health Tolling Agreement. Otherwise the Insider Causes of Action shall remain in full force and effect.

C. Liabilities And Summary Of Claims Treatment

The Debtor and the Committee estimate that the claims ultimately allowable against the Debtor’s estate under the terms of the Plan and their treatment will approximate the following:⁶

UNCLASSIFIED CLAIMS

TYPE OF CLAIM	TREATMENT	AMOUNT	EST. OF % RECOVERY
Administrative Claims	Full Payment Unimpaired	\$300,000	100%
Priority Tax Claims	Full Payment Unimpaired	>\$5,000	100%

⁶ These figures represent the Debtor’s and 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 Debtors and Committee believe, in their reasonable business judgment, will be available under the Plan to satisfy such claims. Claims, or portions thereof, that the Debtor and Committee believe 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, possibly significantly. In addition, the ability to receive distributions under the Plan depends upon the ability of the Debtor and the Committee to obtain confirmation of the Plan and meet the conditions to confirmation and effectiveness of the Plan, as discussed in herein. Reference should be made to the entire Disclosure Statement and Plan for a complete description of the classification and treatment of Claims against and Interests in the Debtor under the 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 ⁷	100%
Class 3: Cardinal Health Secured Claim	Partial Payment ⁸ Impaired	\$ 3 million	75%
Class 4: Contingent PNC Rejection Claims	Partial Payment Impaired ⁹	\$1.95 million ¹⁰	50-75%
Class 5: General Unsecured Claims	Partial Payment Impaired ¹¹	\$1.25 million ¹²	50-75% ¹³
Class 6: Equity Interests	Canceled	N/A	0%

⁷ This does not include purchase money security interests of equipment lessors whose leases will be assumed under the Plan (and whose security interests will remain in place post-emergence).

⁸ Under the Plan, on the Effective Date, in full satisfaction of the Cardinal Health Secured Claim, (i) the Reorganized Debtor shall issue the Cardinal Health Note (principal amount \$3,000,000) to Cardinal Health; (ii) Cardinal Health shall be authorized to keep and apply the Cardinal Health Deposit in its discretion (*i.e.* the Cardinal Health Deposit will not be applied against the Cardinal Health Note); (iii) in the event that the New Equity is sold at the Auction, any cash Sale Proceeds shall be applied against the principal amount of the Cardinal Health Note or as otherwise agreed upon by Cardinal Health, the Committee and the Debtor; and (iv) the Reorganized Debtor shall pay the MDOS Sale Proceeds to Cardinal Health (if not already done) which amount Cardinal Health shall be authorized to keep and apply in its discretion (*i.e.* Cardinal Health is not required to apply the MDOS Sale Proceeds against the Cardinal Health Note). The Cardinal Health Note will be secured by (i) first-priority liens upon and security interests in the assets of the Reorganized Debtor and (ii) the Cardinal Health Guaranty (subject to the terms of the Cardinal Health Tolling Agreement).

⁹ Under the Plan, distributions to Holders of Allowed Class 4 Contingent PNC Rejection Claims and Holders of Allowed Class 5 General Unsecured Claims from the ADM Creditor Trust, exclusive of any net proceeds of PNC Assigned Assets (as defined, and as whose distribution is specified in subsection 4.6(b) of the Plan), shall occur on a Pro Rata basis as if the Holders of Class 4 and Class 5 Claims represented one single class, provided, however, that amounts that would otherwise be distributed from the ADM Creditor Trust to Holders of Allowed Class 4 Contingent PNC Rejection Claims based upon the aggregate amount of the Contingent PNC Rejection Claims identified in Section 1.1.41 of the Plan be initially held in escrow by the ADM Creditor Trustee in the Class 4 Escrow Account, and the distribution of such escrowed amounts to the Holder of an Allowed Class 4 Claim is contingent upon, and subject to, the terms and conditions set forth in subsections 4.6(a) – 4.6(d) of the Plan.

¹⁰ The Debtor and the Committee anticipate that the amount of the Contingent PNC Rejections Claims may be reduced by recoveries from non-debtor parties.

¹¹ Each Holder of Allowed Class 4 Contingent PNC Rejection Claims and Class General Unsecured Claim shall be entitled to Pro Rata distributions from the ADM Creditor Trust in accordance with the ADM Trust Agreement and the Plan. The Reorganized Debtor shall make payments to the ADM Creditor Trust in accordance

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 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 Debtor and the Committee have prepared a liquidation analysis (the “*Liquidation Analysis*”; a true and correct copy of which is attached hereto as Exhibit B), which shows what the Debtor and the Committee reasonable believe 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 Debtor and the Committee believe that a wind up of the Debtor’s business and liquidation of its assets would result in either no recovery for Contingent PNC Rejection Claims and General Unsecured Creditors or a minimal recovery – certainly significantly less than Holders of Claims in these Classes stand to receive under the 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

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.

¹² This \$1.25 million dollar estimate for the aggregate amount of General Unsecured Claims represents a midpoint between the Debtor’s 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. It should be noted that all of these amounts exclude the Cardinal Health Deficiency Claim (since it is being waived under the Plan) and the estimated amount of the Contingent PNC Rejection Claims (since these are separately classified).

¹³ This percentage recovery assumes that General Unsecured Creditors receive the two Unsecured Creditor Notes (a total of \$1.9 million). No value has been attributed to the Avoidance Actions (or the Insider Actions) given the uncertain value of these claims (and uncertainty over whether they will be available in the case of the Insider Actions).

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 Debtor and the Committee believe that if the Debtor's case was converted to one under chapter 7 and its business was wound-down and liquidated, Holders of Contingent PNC Rejection Claims and General Unsecured Claims would receive a substantially smaller, if any, recovery.

Through the Plan, however, it is estimated that Holders of Contingent PNC Rejection Claims and General Unsecured Claims will receive distributions totaling between 50% and 75% of their Allowed Claims over time from the ADM Creditor Trust. It should be noted, however, that the Plan proposes to make distributions to Holders of Contingent PNC Rejection Claims and General Unsecured Claims based upon, among other things, future Operating Revenues of the Reorganized Debtor generated subsequent to the confirmation of the Plan. It is therefore conceivable (although the Debtor and the Committee certainly hope this is not the case) that the Reorganized Debtor will not generate sufficient Operating Revenue to provide Holders of Contingent PNC Rejection Claims and 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 Debtor’s 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 Equipment 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).

A summary of the Debtor’s post-petition operations based upon its filed Monthly Operating Reports is attached hereto as Exhibit C.

IV. THE PLAN

A. General Provisions

The following summary of the principal provisions of the Plan is qualified in its entirety by reference to the provisions of the 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 (i) divides claims and equity interests into separate classes, (ii) specifies the property (or treatment) that each class is to receive under the plan, and (iii) 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 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, two Classes 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 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 full quarter 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.

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, and shall be paid by the Reorganized Debtor when due thereafter until the Bankruptcy Case is closed.

C. Classification and Treatment of Claims and Interests

As noted above, for purposes of voting on the Plan and making distributions thereunder, the 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 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

The secured claim of Cardinal Health shall be fixed and allowed in the amount of \$3,000,000. On the Effective Date, in full satisfaction of the Cardinal Health Secured Claim, (i) the Reorganized Debtor shall issue the Cardinal Health Note to Cardinal Health; (ii) Cardinal Health shall be authorized to keep and apply the Cardinal Health Deposit in its discretion (*i.e.* the Cardinal Health Deposit will not be applied against the Cardinal Health Note); (iii) in the event that the New Equity is sold at the Auction, any cash Sale Proceeds shall be applied against the principal amount of the Cardinal Health Note or as otherwise agreed upon by Cardinal Health, the Committee and the Debtor; and (iv) the Reorganized Debtor shall pay the MDOS Sale Proceeds to Cardinal Health (if not already done) which amount Cardinal Health shall be authorized to keep and apply in its discretion (*i.e.* Cardinal Health is not required to apply the MDOS Sale Proceeds against the Cardinal Health Note). The Cardinal Health Note will be secured by (i) first-priority liens upon and security interests in the assets of the Reorganized Debtor and (ii) the Cardinal Health Guaranty (subject to the terms of the Cardinal Health Tolling Agreement). In the event that a sale is consummated pursuant to the Auction and the New Equity is transferred on or before the Effective Date to a Person(s) other than the Holders of Existing Equity (Sam and Anand Kancherlapalli), the Cardinal Health Guaranty will be reduced by the amount of Sale Proceeds actually received by Cardinal Health hereunder (for example, if Cardinal Health received \$300,000 in Sale Proceeds, the Cardinal Health Guaranty will be reduced by that amount). 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 – Contingent PNC Rejection Claims

The Debtor has rejected or otherwise terminated certain equipment leases pursuant to which the Debtor leased equipment from PNC. “*Contingent PNC Rejection Claim(s)*” are defined in the Plan as any Claim of PNC against the Debtor which arises out of or relates to a PNC Equipment Lease listed on Exhibit A attached to the Plan. The Contingent PNC Rejection Claims shall also include any and all of PNC’s reasonable attorneys’ fees and other costs incurred by PNC in connection with the Case and/or the post-Petition Date enforcement of PNC’s rights and interests in connection with such Contingent PNC Rejection Claims. The treatment of Contingent PNC Rejection Claims is described herein and in the Plan in connection with the description of the treatment of Class 5 General Unsecured Claims provided, however:

(a) subject to the provisions of Section 4.6 of the Plan, PNC shall retain its rights, claims, and interests, if any, in and to any and all equipment or other related property that is or was the subject of the PNC Equipment Leases described in Exhibit A; (b) other than as set forth in Section 10.8 of the Plan, neither the remaining provisions of Article X of the Plan, the automatic stay under Section 362 of the Bankruptcy Code, nor any related provisions in the Plan or in the Confirmation Order shall prohibit PNC from pursuing its rights, claims, and interests concerning such equipment or other related property that is or was the subject of the PNC Equipment Leases described in Exhibit A; and (c) PNC is in possession of certain funds of the Debtor held as collateral for PNC’s Claims against the Debtor, which funds total \$95,352.05, and on the Effective Date, PNC shall set off and apply such funds to commensurately reduce its Contingent PNC Rejection Claim of \$137,340 pertaining to the Suntime Lease (as set forth on Exhibit A) to \$41,987.95.

5. Class 5 – General Unsecured Claims

Each Holder of an Allowed General Unsecured Claim and/or an Allowed Contingent PNC Rejection Claim shall be entitled to Pro Rata distributions from the ADM Creditor Trust in accordance with the ADM Creditor Trust Agreement and this Plan. Subject to Section 6.10 hereof, 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 Class 4 and Class 5 Claims having received 75% of the Allowed amounts of their Claims, as defined in subsection (b) below (notwithstanding that the stated principal sum of the Unsecured Creditor Note B is \$1,250,000); or (ii) the Unsecured Creditor Notes being satisfied in full. On the Effective Date, the ADM Creditor Trust shall also receive the ADM Creditor Trust Assets. Net recoveries on Avoidance Actions (*i.e.* recoveries after the ADM Creditor Trustee's costs incurred in pursuing such Avoidance Actions), if any, shall be credited first against the Reorganized Debtor's obligations under Unsecured Creditor Note B in the inverse order of maturity and then second against the Reorganized Debtor's obligations under Unsecured Creditor Note A, in inverse order of maturity.

Distributions of proceeds of the ADM Creditor Trust Assets from the ADM Creditor Trust shall be made by the ADM Creditor Trustee in accordance with the ADM Creditor Trust Agreement and this Plan to the Holders of Class 4 and Class 5 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 and 5 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 and 5 Claims (including, without limitation, for the pursuit of Avoidance Actions).

Distributions to Holders of Allowed Class 4 Contingent PNC Rejection Claims and Holders of Allowed Class 5 General Unsecured Claims from the ADM Creditor Trust, exclusive of any net proceeds of PNC Assigned Assets (as defined, and as whose distribution is specified, below in subsection (b)), shall occur on a Pro Rata basis as if the Holders of Class 4 and Class 5 Claims represented one single class, provided, however, that amounts that would otherwise be distributed from the ADM Creditor Trust to Holders of Allowed Class 4 Contingent PNC Rejection Claims based upon the aggregate amount of the Contingent PNC Rejection Claims identified in Section 1.1.41 of the Plan shall be initially held in escrow by the ADM Creditor Trustee in the Class 4 Escrow Account, and the distribution of such escrowed amounts to the Holder of an Allowed Class 4 Claim is contingent upon, and subject to, the following terms and conditions:

(a) Submission to the ADM Creditor Trustee and the Reorganized Debtor of a written notice(s) from PNC with respect to any Contingent PNC Rejection Claim(s) identified on Exhibit A hereto (the “**PNC Claim Notice**”) that sets forth the following information: (i) a statement that PNC has completed or concluded all collection efforts, if any, (A) from the sale or other liquidation of any equipment or other related property that is the subject of the PNC Equipment Lease(s) giving rise to such Contingent PNC Rejection Claim(s) (the “**PNC Equipment**”) and (B) from any non-Debtor lessee to, or other non-Debtor party that may be liable under, the PNC Equipment Lease(s) giving rise to such Contingent PNC Rejection Claim(s) (the “**PNC Non-Debtor Claims**”), provided, however, and for clarification, the PNC Non-Debtor Claims shall not include claims or

rights of PNC under any guaranties executed by any of the Insiders or Affiliates of the Debtor in favor of PNC; and (ii) the then-current outstanding amount of such Contingent PNC Rejection Claim(s) (including any attorneys' fees and costs) which PNC seeks to have Allowed and paid pursuant to this Section;

(b) Within thirty (30) days after the receipt of a PNC Claim Notice by the ADM Creditor Trustee and the Reorganized Debtor, the Reorganized Debtor may elect by written notice to PNC and the ADM Creditor Trustee to receive an assignment from PNC of PNC's right, title, and interest, if any, in and to any underlying PNC Equipment and/or PNC Non-Debtor Claims relating to the Contingent PNC Rejection Claim(s) that is/are the subject of such PNC Claim Notice, and if such election is made, then PNC shall thereafter execute any reasonable assignment or transfer documents prepared by the Reorganized Debtor and/or the ADM Creditor Trustee, at no cost to PNC, which are necessary to transfer (i) any and all of PNC's right, title, and interest, if any, in and to such PNC Equipment to the Reorganized Debtor and (ii) any and all of PNC's right, title, and interest, if any, in and to the PNC Non-Debtor Claims to the ADM Creditor Trustee (collectively, the "**Assigned PNC Assets**"), provided, however, (i) such transfer by PNC to the Reorganized Debtor and/or the ADM Creditor Trustee shall be on a quitclaim basis, "AS IS," "WHERE IS," "WITH ALL FAULTS," and with no representations or warranties of any kind or nature, and (ii) any funds, proceeds or other recoveries that the Reorganized Debtor and/or the ADM Creditor Trustee may recover from such Assigned PNC Assets, less the reasonable costs incurred by the Reorganized Debtor and/or the ADM Creditor Trustee in connection with such recovery, shall be turned over to (or retained by, as the case may be) the ADM Creditor Trustee to be distributed to PNC on

account of the Allowed Class 4 Contingent PNC Rejection Claim to which such Assigned PNC Assets relate until such Claim has been fully satisfied, and then any remaining net proceeds shall go to the ADM Creditor Trust to be distributed to the remaining Allowed Class 4 and Class 5 Claims pursuant to the terms of this Section 4.6, provided further, however: (A) except as provided in subsection (d) below, in no event shall PNC receive from the ADM Creditor Trustee, on account of all Allowed Class 4 Contingent PNC Rejection Claims (whether from the net proceeds of Assigned PNC Assets or from assets of the ADM Creditor Trust), in the aggregate more than 75% of the Allowed amount of all Class 4 Contingent PNC Rejection Claims, and in such event, any remaining net proceeds from Assigned PNC Assets shall thereafter be distributed only to the Holders of Allowed Class 5 General Unsecured Claims on a Pro Rata basis; and (B) once the Class 5 General Unsecured Claims have received 75% of the Allowed amount of their Claims from the ADM Creditor Trustee (whether from the net proceeds of Assigned PNC Assets or from assets of the ADM Creditor Trust), then any remaining net proceeds from Assigned PNC Assets shall thereafter be distributed to the Reorganized Debtor;

(c) Any Allowed Contingent PNC Rejection Claim(s) shall be paid by the ADM Creditor Trustee pursuant to the terms of this Section 4.6 from the Class 4 Escrow Account irrespective of the fact that any remaining Contingent PNC Rejection Claim(s) may not yet have been Allowed or disallowed; and

(d) Any funds held in the Class 4 Escrow Account that are subsequently distributed to PNC on account of an Allowed Class 4 Contingent PNC Rejection Claim shall be distributed to PNC along with any of the interest that has accrued on such funds,

and such interest shall not count as a payment against, or that reduces, the Allowed Class 4 Contingent PNC Rejection Claim so paid.

6. *Class 6 – Equity Interests*

All Class 6 Equity Interests will be extinguished and Class 6 Equity Interests shall receive no distributions on account of such Interests. On the Effective Date the Debtor will issue the New Equity, 100% of which will be pledged to and held by the ADM Creditor Trust pursuant to the Stock Pledge as security for amounts due under the Unsecured Creditor Notes. Until such time as the Reorganized Debtor's obligations under the Unsecured Creditors Notes have been fully satisfied, voting rights associated with the New Equity may not be exercised, except to authorize a sale of the business or substantially all of the assets of the Reorganized Debtor in accordance with Section 6.18.7 of the Plan. Rather, the New Equity Holder will generally have the right to manage and run the Reorganized Debtor's business operations, subject to the affirmative and negative covenants contained herein. If a payment default has occurred under Unsecured Creditor Note A and shall have continued without being cured within thirty (30) days, the ADM Creditor Trustee shall have the right, but not the obligation, to send a written default notice to the New Equity Holder, and shall copy Cardinal Health on any such notice. If the default at issue is not cured within thirty (30) days of the date of any such default notice, the ADM Creditor Trustee shall have the right, but not the obligation, to execute and effectuate the Stock Pledge, which action shall be deemed to effectively transfer and convey all rights associated with the New Equity to the ADM Creditor Trust (and divest the prior New Equity Holder of the New Equity of all associated rights, leaving the ADM Creditor Trust as the New Equity Holder hereunder). If the Stock Pledge is executed and effectuated as provided for in the Plan, then the ADM Creditor Trustee's rights with respect to the New Equity shall be subject to

and exercised consistent with obligations of New Equity Holders under the Intercreditor Agreement and the Plan; provided, however, that if the ADM Creditor Trust becomes the New Equity Holder, the ADM Creditor Trustee shall keep the Reorganized Debtor's existing President and CFO in place and shall not terminate or replace them absent the written consent of Cardinal Health (until the Cardinal Health Note has been fully satisfied). If the Stock Pledge is executed and the Reorganized Debtor's obligations under the Cardinal Health Note are satisfied, then the ADM Creditor Trustee shall have the right to sell or otherwise dispose of the New Equity at any time in his reasonable business judgment (with any proceeds inuring to the ADM Creditor Trust for distribution in accordance with the Plan and ADM Creditor Trust Agreement, even if such proceeds result in Holders of Class 4 and Class 5 Claims receiving an aggregate pro-rata distribution in excess of 75%).

D. Auction and Sale of the New Equity

In the event that the Debtor and the Committee receives more than one Qualified Bid by the Existing Equity Bid Deadline, an Auction for the New Equity will be held and will be governed by the Sale and Bid Procedures. 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 New Equity 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. In the event no Qualified Bid is received by the Qualified Bid Deadline, the New Equity Holder shall be Sam Kancherlapalli and Anand Kancherlapalli.

The New Equity Holder – 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 New Equity Holder will be entitled to in the aggregate (*i.e.*, if the New Equity is held by more than one person, such persons are collectively only entitled to the following): (i) a \$30,000 per year base management fee for operating the Reorganized Debtor, paid in equal monthly installments; (ii) a contingent \$35,000 per year management fee, payable in one lump sum payment after the close of each 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 \$331,000 (if the \$35,000 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 \$50,000 per year (in the Purchaser's discretion), payable only after the Cardinal Health and Unsecured Creditor Notes have been paid in full; and (iii) cancellation of the Stock Pledge (and the re-vesting of all rights associated with New Equity) upon payment in full of the Unsecured Notes.

E. Financial Forecasts and Assumptions

Attached to this Disclosure Statement as Exhibit D are the forward looking projections (the "*Projections*") developed by the Debtor and the Committee 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 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 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.¹⁴ 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 and/or Operating Profits generated by the Reorganized Debtor going forward.

The Projections incorporate reasonable assumptions based on the Debtor's current business operations and historical experience. The Projections show the Reorganized Debtor being able to pay off all of its Note obligations within five years, leaving the New Equity Holder with a profitable going-concern business. The bottom line is that while there is inherent risk in all projections, the Debtor and the Committee believe that the Projections reasonably reflect what the Reorganized Debtor's financial picture may look like over the next five years.

F. Summary of Other Plan Provisions

1. Funding

The Plan contemplates that Available Cash (and the Sale Proceeds, if applicable) will be used to fund all of the Effective Date obligations under the Plan. Post-Effective Date Plan payments to Holders of Allowed Claims and/or to the ADM Creditor Trust will be made by the Reorganized Debtor from Available Cash, Operating Revenues and/or Operating Profits.

The Reorganized Debtor will make all of the payments required to be made under the Plan on account of Allowed Administrative Claims, Allowed Priority Tax Claims, and Allowed

¹⁴ Payments on the Cardinal Note (\$3,000,000) and Unsecured Creditor Note A (\$650,000) 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 \$331,000 and (b) shall cease entirely (notwithstanding that the principal sum of the Unsecured Creditor B Note is \$1,250,000) once sufficient payments have been made, subject to Section 6.12 of the Plan, such that cumulative principal payments to General Unsecured Creditors on the Unsecured Creditor Notes (including expenses of the ADM Creditor Trust in excess of ADM Creditor Trustee Payments received by the ADM Creditor Trust) have reached 75% of the aggregate Allowed amount of such General Unsecured Claims. If all or some portion of Unsecured Creditor Note B cannot be paid in full at the end of five years, any such unpaid balance, including any accrued interest, will roll forward and will: (i) accrue interest at 4% per year; (ii) require monthly payments of principal and interest based on a two (2) year amortization.

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 Allowed Contingent PNC Rejection Claims and General Unsecured Claims (Classes 4 and 5).

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 and the Plan. In the event that the fees, costs, and expenses of the ADM Creditor Trustee exceed the aggregate amount of the ADM Creditor Trustee Payments and a portion of the proceeds from the Unsecured Creditor Notes needs to be used to pay such fees, costs, and expenses, the payment obligations of the Reorganized Debtor under the Unsecured Creditor Notes will still not exceed 75% of the aggregate Allowed General Unsecured Claims and Allowed Contingent PNC Rejection Claims (*i.e.* if 75% of all Allowed General Unsecured Claims and Allowed Contingent PNC Rejection Claims hypothetically is \$1,500,000, the Reorganized Debtor’s payment obligations under the Unsecured Creditor Notes shall be capped at \$1,125,000 (75% of \$1,500,000) even if a portion of the \$1,125,000 needs to be used to cover fees, cost, and expenses of the ADM Creditor Trustee that exceed the aggregate amount of the ADM Creditor Trustee Payments). Post-Confirmation Date Operating Expenses will be paid out of Operating Revenue by the Reorganized Debtor, in the ordinary course of business.

2. Formation of the ADM Creditor Trust

The ADM Creditor Trust will be established to receive on the Effective Date (i) the ADM Creditor Trust Assets, including the UCC Cause of Action and the Avoidance Actions, and (ii) the Stock Pledge, 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 Contingent PNC Rejection Claims and Class 5 General Unsecured Claims to obtain the distributions as provided for in the Plan and in the ADM Creditor Trust Agreement. The ADM Creditor Trust is intended to qualify as a “liquidating trust” under the Internal Revenue Code of 1986 and the regulations promulgated thereunder, specifically Treas. Reg. § 301.7701-4(d), and as such is a “grantor trust” for federal income tax purposes with the beneficiaries treated as grantors and owners of the ADM Creditor Trust Assets.

3. *Powers and Appointment of ADM Creditor Trustee*

The ADM Creditor Trustee shall administer the ADM Creditor Trust and its assets in accordance with the 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 Allowed Class 4 Contingent PNC Rejection Claims and Class 5 General Unsecured Creditors in accordance with the 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 such issues; (c) participate in all matters brought before the Bankruptcy Court; (d) have the right to object to and to pursue objections to Allowed Class 4 Contingent PNC Rejection Claims and Class 5 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 monitor the operations of the Reorganized Debtor pursuant to the terms of the covenants set forth in the Plan and 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 – but with notice to the Reorganized Debtor. 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. Their fees shall be paid solely by the ADM Creditor Trustee from ADM Creditor Trust Assets. The Committee's financial advisor shall not be retained by the ADM Creditor Trustee (or serve as Creditor Trustee) on or after the Effective Date.

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

On the Effective Date of the Plan, (i) the Existing Equity in the Debtor will be canceled; (ii) the Debtor will issue the New Equity to the New Equity Holder; (iii) 100% the New Equity will be pledged to the ADM Creditor Trust pursuant to the Stock Pledge as security for the Reorganized Debtor's obligations under the Unsecured Creditor Notes.

5. *Transfer of Assets to the Reorganized Debtor*

Other than as specifically set forth in the 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 pursuant to the terms of the Plan, and any other assets which shall vest in the ADM Creditor

Trust pursuant to the express provisions of the Plan. Post-Confirmation Date Operating Expenses will be paid out of Operating Revenue by the Reorganized Debtor, in the ordinary course of business.

6. *Affirmative and Negative Covenants, Taxes*

Until such time as all repayment promises have been fully satisfied as provided in the Plan, ADM Imaging shall be required to comply with the Affirmative Covenants and Negative Covenants set forth in **Articles 6.12 and 6.13** of the Plan subject to the waiver set forth in **Article 6.14** of the Plan; the New Equity Holder shall be required to comply with the Affirmative Covenants and Negative Covenants set forth in **Articles 6.15 and 6.16** of the Plan; and the Reorganized Debtor shall be required to comply with the Affirmative Covenants and Negative Covenants set forth in **Articles 6.17 and 6.18** of the Plan. The Debtor, the Reorganized Debtor, and the ADM Creditor Trustee shall be required to comply with the tax reporting requirements of **Article 6.19** of the Plan.

7. *Auction and Sale of the New Equity*

The Sale and Bid Procedures for the purchase of the New Equity are set forth as an exhibit to the Plan. In the event that more than one Qualifying Bid is received by the Existing Equity Bid Deadline, an Auction will be held in accordance with the Sale and Bid Procedures, at which time Qualified Bidders may bid on the right to purchase the New Equity (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 New Equity 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. In the event no Qualified Bid is received by the

Qualified Bid Deadline, the New Equity shall transfer on the Effective Date to the New Equity Holder, which in that scenario shall be Sam Kancherlapalli and Anand Kancherlapalli.

8. Allocation of Sale Proceeds

On the Effective Date, the Sale Proceeds (if any) shall be paid to Cardinal Health to be applied to the Reorganized Debtor's obligations under the Cardinal Health Note as provided for in the Plan.

9. Rights Granted to the New Equity Holder

As more fully set forth in the ADM Creditor Trust Agreement, the New Equity Holder will be entitled to the aggregate (*i.e.*, if the New Equity is held by more than one person, such persons are collectively only entitled to the following): (i) a \$30,000 per year base management fee for operating the Reorganized Debtor, paid in equal monthly installments; (ii) a contingent \$35,000 per year management fee, payable in one lump sum payment after the close of each fiscal year only (a) if all prior payments due 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 \$331,000 (if the \$35,000 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 \$50,000 per year, payable only after the Cardinal Health and Unsecured Creditor Notes have been paid in full; and (iii) cancellation of the Stock Pledge (and the re-vesting of all rights associated with the New Equity) upon payment in full of the Unsecured Creditors Notes.

10. Release of Cardinal Claims

On the Effective Date, the Cardinal Claims will be automatically released and discharged in their entirety, and the Debtor, Reorganized 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. In addition, as of the Effective Date, Cardinal Health shall be automatically released of all causes of action that arose prior to the Effective Date that could have been brought by the Debtor, the Committee, the Reorganized Debtor and the ADM Creditor Trustee as of the Effective Date against Cardinal Health including without limitation any cause of action (i) objecting to the validity or amount of the Cardinal Health secured claim as of the Effective Date or to the extent, priority validity, perfection or non-avoidability of Cardinal Health's and Cole Taylor's liens on and security interests in the Debtor's property as of the Effective Date, or (ii) seeking disgorgement or avoidance of all or part of the payment of the Debtor's liabilities and obligations under the Cole Taylor or Cardinal Health prepetition loan documents.

11. Release of ADM Imaging

Upon ADM Imaging fully satisfying the ADM Imaging Obligations, ADM Imaging shall receive a full and complete release of any Avoidance Action which may have been filed against ADM Imaging with respect to monies loaned by the Debtor to ADM Imaging, at any time prior to the Petition Date; provided, however, that ADM Imaging's other obligations under the Plan, including, without limitation, under the ADM Imaging PET Cardiac Covenant or the associated affirmative covenants designed to ensure compliance with same, shall remain in place as long as the New Equity Holder Negative Covenant remains in place pursuant to Section 6.16 of the Plan. In the event of a default by ADM Imaging, under its obligations to the Reorganized Debtor that

has not been cured within fifteen (15) days, the Reorganized Debtor shall promptly (no later than five days after the expiration of the cure period) notify Cardinal Health and the ADM Creditor Trustee in writing of such default and the ADM Creditor Trustee shall have, in his sole discretion, the right to take assignment of any and all causes of action against ADM Imaging as a result of the breach and to pursue remedies (with any after-cost proceeds to be applied 50% against any outstanding Cardinal Health Note obligations and 50% against outstanding Unsecured Creditor Note obligations, or 100% against Unsecured Creditor Note obligations if the Cardinal Health Note has been fully satisfied at such time). Notwithstanding anything in Section 10.5 of the Plan to the contrary, ADM Imaging will not receive a release under the Plan if the New Equity is sold to a party other than Existing Equity.

12. Possible Release of Insider Causes of Action

If and only if Sam and Anand Kancherlapalli become the New Equity Holders hereunder, as of the Effective Date, all Insider Causes of Action shall be automatically released and discharged in their entirety (other than Causes of Action or Avoidance Actions against ADM Imaging, which will be addressed as separately provided for above, the Cardinal Health Guaranty, and any guaranties executed by any of the Insiders or Affiliates of the Debtor in favor of PNC), including without limitation, all Causes of Action that arose prior to the Effective Date and that could have been brought by the Debtor, the Committee, the Reorganized Debtor, and the ADM Creditor Trustee as of the Effective Date against Sam Kancherlapalli, Vicki Kancherlapalli, Anand Kancherlapalli, Sharon Kancherlapalli, Grace Kancherlapalli, and Rick Nassenstein. Notwithstanding the foregoing, Cardinal Health shall not release its rights under the Cardinal Health Guaranty and the Cardinal Health Tolling Agreement, which rights are not affected by the Release of Insider Causes of Action under Section 10.6 of the Plan, and (ii) PNC

shall not release its rights, claims, or interests arising out of or relating to any guaranties executed by any of the Insiders or Affiliates of the Debtor in favor of PNC, which rights, claims, and interests are not affected by this Section 10.6.

13. Stay of Guaranty Actions

If and only if Existing Equity becomes the New Equity Holder under the Plan, any party (other than Cardinal Health or PNC) shall be stayed from attempting to collect on guaranties by the New Equity Holder of debts of the Debtor until and unless the Reorganized Debtor defaults on its payment obligations (which has not been cured within ninety (90) days) with respect to the class of creditors in which such party's claim resides (for example, a general unsecured creditor whose claim has been guaranteed by one or both of the New Equity Holder shall not be entitled to pursue the New Equity Holders unless and until the Reorganized Debtor defaults on its payment obligations to General Unsecured Creditors (such as with respect to the Unsecured Creditor Notes), and such payment default has not been cured within ninety (90) days).

If and only if the Holders of Existing Equity (Sam and Anand Kancherlapalli) become the New Equity Holder under the Plan: (i) PNC shall be stayed from attempting to collect on any guaranties executed by any of the Insiders or Affiliates of the Debtor in favor of PNC in connection with any Contingent PNC Rejection Claim(s) until the earlier of (A) the date that the Reorganized Debtor defaults on its payment obligations under the Unsecured Creditor Notes and/or the Plan with respect to payments to be made under the Plan to the Holders of Allowed Class 4 Contingent PNC Rejection Claim(s), and such payment default has not been cured within ninety (90) days thereof, or (B) the date that the Reorganized Debtor satisfies all payment obligations under the Unsecured Creditor Notes and the Plan with respect to payments to be made under the Plan to the Holders of Allowed Class 4 Contingent PNC Rejection Claims, , or

(C) the date that any of the Kancherlapallis (hereafter defined) fail to comply with the provisions of subsection (ii) or (iii) below and such failure has not been cured within ten (10) days of delivery of written notice of such failure from PNC to the Debtor, the Reorganized Debtor, and counsel to Sam and Anand (a/k/a Vivekananda) Kancherlapalli (collectively, the “*Kancherlapallis*”) in accordance with Section 12.12 herein; (ii) on or prior to the Confirmation Date, the Kancherlapallis shall each execute the consent provision at the end of the signature page attached to the Plan which signature effectively acknowledges and agrees that any and all applicable statutes of limitations or repose and all time periods, with respect to PNC initiating or bringing any potential cause of action against either of them in connection with any guaranty of any Contingent PNC Rejection Claim(s), that are unexpired as of date of this Plan (collectively, the “*Time Periods*”), shall be and are hereby tolled, and the running of such Time Periods are hereby suspended, from the date of this Plan to the date that is sixty (60) days following the expiration of the stay period provided in subsection (i) above, and (iii) the Kancherlapallis shall, no more than once per year for each one year period following the Confirmation Date, and within thirty (30) days of delivery of a written request made by PNC to the Debtor, the Reorganized Debtor, and to counsel to the Kancherlapallis (in accordance with Section 12.12 of the Plan), turn over and execute their respective then-current personal financial statements and related information as required by PNC’s then-form financial statement.

14. *Executory Contracts and Unexpired Leases*

Unless expressly noted otherwise in Article VII of the 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 shall have been previously rejected by the Debtor by prior order of the Bankruptcy Court. Notwithstanding any other

provision of this Plan or the Confirmation Order, including without limitation, the Discharge of Claims and Interests and Releases of Article X herein: (a) the Claims of PNC which arise out of or relate to those agreements or documents described in subsections (i) and (ii) below (collectively, the “Assumed PNC Claims”) shall not be discharged or released by the terms of this Plan or the Confirmation Order: (i) any of the Assumed PNC Equipment Leases (as defined in Section 1.1.69 herein), and/or (ii) any agreements or other documents executed by the Debtor in connection therewith (the “Assumed PNC Claim Documents”); (b) the Reorganized Debtor shall be, and remain, liable for any such Assumed PNC Claims, when and as such Claims may come due pursuant to the terms of the applicable Assumed PNC Equipment Leases and Assumed PNC Claim Documents; and (c) PNC shall retain its rights, claims, and interests in any equipment or other related property which is the subject of the Assumed PNC Equipment Leases.

Entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of the assumptions or rejections contemplated in the Plan pursuant to §§ 365 and 1123 as of the Effective Date. Each executory contract or unexpired lease assumed pursuant to Article VII of the Plan shall vest in, and be fully enforceable by, the Reorganized Debtor in accordance with its terms, except as modified by the terms of this Plan, or any order of the Bankruptcy Court authorizing its assumption. 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 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 Plan.

15. 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

Debtor, the Reorganized Debtor, or the ADM Creditor Trustee with respect to any Claim or Interest, including, without limitation, all rights of the Debtor, the Reorganized Debtor 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 **Articles IV and VIII** of the Plan shall at all times be subject to **Article IX** of the Plan and to § 502(d).

16. *Objection Deadline*

Objections to Claims may be filed by the Debtor or the Reorganized Debtor, except with respect to objections to Class 4 and Class 5 Claims, which may also be filed by the ADM Creditor Trustee. Unless otherwise prescribed by the Bankruptcy Court, 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 and Class 5 Claims; provided, however, that (i) objections to Class 5 Claims shall be made no later than two hundred seventy (270) days after the Effective Date, and (ii) objections to Class 4 Contingent PNC Rejection Claim(s) shall be made any time after the Effective Date but in the event that a PNC Claim Notice is delivered to the ADM Creditor Trustee with respect to any Contingent PNC Rejection Claim(s) identified in such PNC Claim Notice, then any objection to

such Claim shall be made no later than sixty (60) days after delivery of such PNC Claim Notice to the ADM Creditor Trustee (provided further, however, that in no event will the ADM Creditor Trustee have less than one hundred twenty (120) days from the Effective Date to object to a Class 4 Claim). The Debtor and Reorganized Debtor shall expressly apprise and/or cooperate with Cardinal Health and/or the ADM Creditor 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 and Cardinal Health having express standing to participate in the Claims resolution process contemplated in the Plan. Notwithstanding any other provision in the Plan, no payment or distribution shall be made on account of or with respect to any Claim to the extent it is a Disputed Claim unless and until the Disputed Claim becomes an Allowed Claim, as applicable.

17. *Administrative Claims Bar Date*

All requests for allowance and/or payment of an Administrative Claim, other than amounts due to professionals, must be filed with the Bankruptcy Court and served on counsel for the Reorganized Debtor no later than (20) days after the service of the notice of entry of the Order setting the Confirmation Hearing. 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.

18. *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. All Professional Persons seeking to assert Professional Fee Claims shall identify and provide to the Debtor and the Committee within ten (10) days before the Confirmation Hearing the approximate amount of accrued and unpaid fees and expenses anticipated to be outstanding as of the Confirmation Date along with detailed time records reflecting such amounts due.

19. *Satisfaction of Claims*

Except as expressly provided in the Plan or the Confirmation Order, all Claims against the Debtor shall be satisfied by the distributions or treatments received under the Plan. Further, except as expressly provided in the 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.

20. *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.

21. *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: (i) 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.

22. *Waiver of Claims Against Plan Distributions*

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

23. *Exculpation and Indemnification*

Neither 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 Plan, the pursuit of confirmation of the Plan, the confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the 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 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 Plan, the pursuit of confirmation of the Plan, the confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the 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 Plan and the closing of the Case.

V. The Solicitation; Voting Procedures

A. Voting Procedures and Deadline

A ballot is enclosed for the purpose of voting on the Plan. Parties entitled to vote should carefully follow the instructions set forth herein and on the ballot and vote and return your ballot(s), by first class mail, hand or overnight courier, to:

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

TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED NO LATER THAN 5:00 P.M. (CENTRAL TIME) ON JUNE 28, 2012 (THE “VOTING DEADLINE”).

ANY BALLOT WHICH IS EXECUTED BUT DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN, OR ON WHICH BOTH THE ACCEPTANCE AND REJECTION BOX IS CHECKED, WILL BE DEEMED TO BE AN ACCEPTANCE OF THE PLAN. ANY BALLOT THAT IS EITHER UNRETURNED BY THE VOTING DEADLINE OR IS RETURNED BUT NOT EXECUTED WILL BE CONSIDERED NULL AND VOID AND WILL NOT BE COUNTED.

All votes to accept or reject the 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 Plan, and must be signed by the Creditor or the Creditor’s authorized agent. Any Creditor holding a Claim in more than one Class that is entitled to vote on the 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.

If you are a holder of a Claim entitled to vote on the Plan and did not receive a ballot, received a damaged ballot or lost your ballot, or if you have any questions concerning the Disclosure Statement, the Plan or the procedures for voting on the Plan, please call counsel for the Committee, Goldstein & McClintock LLLP, Attention: Matthew E. McClintock, Esq., 312-

337-7700, or counsel for the Debtor, Arnstein & Lehr LLP, Attention: Miriam R. Stein, Esq., Esq., 312-876-7100.

B. Withdrawal of Ballots; Change of Votes

Any Creditor entitled to vote on the 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 Plan.

C. Joint Hearing on Adequacy of Disclosure Statement and Plan Confirmation

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing to determine whether the Disclosure Statement meets the adequacy requirements of section 1125 of the Bankruptcy Code and whether the Plan meets the requirements for confirmation established by section 1129 of the Bankruptcy Code. Any party-in-interest may object to the adequacy of the Disclosure Statement or confirmation of the Plan. The Bankruptcy Court has scheduled a joint hearing with respect to the sufficiency of this Disclosure Statement

and confirmation of the Plan for July 10, 2012 (the “*Joint Hearing*”). Notice of the Joint Hearing has been, or will be, provided to all holders of Claims and Interests and other parties-in interest (the “*Confirmation Notice*”).

Objections, if any, to the adequacy of the Disclosure Statement or confirmation of the Plan must: (i) be in writing; (ii) state the name and address of the objecting party and the nature of the Claim or Interest of such party; (iii) state with particularity the basis and nature of any objection; and (iv) in accordance with Bankruptcy Rule 3020(b)(1), be filed, together with proof of service, with the Bankruptcy Court and served on the following parties so that they are received no later than 5:00 p.m. (Central Time) on June 28, 2012 (the “*Objection Deadline*”), or such other date established by the Plan Proponents: (a) the Debtor, American Diagnostic Medicine, Inc., 167 Oswalt Avenue, Batavia, Illinois 60510 (Attn: Sam Kancherlapalli); (b) counsel to the Debtor, Arnstein & Lehr LLP; 120 S. Riverside Plaza, Suite 1200, Chicago, Illinois 60606 (Attn: Miriam R. Stein, Esq.); (c) counsel to the Committee, Goldstein & McClintock LLLP, 208 South LaSalle Street, Suite 1750, Chicago, Illinois 60604; (d) the Office of the United States Trustee, 219 South Dearborn Street, Suite 873, Chicago, Illinois 60604 (Attn: Cameron Gulden, Esq.); and (e) counsel to Cardinal Health, Wilson Elser Moskowitz Edelman & Dicker LLP, 200 Campus Drive, Florham Park, NJ 07932-0668 (Attn: Scott A. Zuber, Esq.).

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 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 Plan. Accordingly, holders of Claims in Classes 1 and 2 will not be entitled to vote. Classes 3, 4, 5, and 6 are impaired. Creditors holding Claims in Classes 3, 4, and 5 will be entitled to vote to accept or reject the Plan. Interests in Class 6 are not receiving any property on account of their interests and thus are deemed to reject the 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 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 Debtor and the Committee will seek confirmation of the Plan pursuant to § 1129(b) in the event of the Plan's rejection by any impaired Class of Creditors. The Bankruptcy Court will set a hearing to determine whether the Plan has been accepted by the requisite number of holders of Claims and whether the other requirements for confirmation of the 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 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 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 PLAN.

VII. Alternatives to Confirmation and Consummation of The Plan

If the Plan is not confirmed, the Debtor's alternatives include: (a) the Continuation of the Debtor's Chapter 11 Case and (b) 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. 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 Plan (see attached Liquidation Analysis).

Given these alternatives, the Debtor and the Committee believe that the 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 Plan, an outline of the Reorganized Debtor's projected post-confirmation finances, and a discussion of the process for confirming the Plan. Creditors and parties in interest are cautioned, however, that the provisions of the Plan are complex, and that reference should be made to the Plan itself for a proper understanding and analysis of its terms and provisions. **ALL HOLDERS OF CLAIMS ARE URGED TO READ THE PLAN CAREFULLY.**

The Debtor and the Committee believe that the confirmation and consummation of the Plan is fair, equitable and reasonable, and will provide creditors – particularly Cardinal Health and Holders of Contingent PNC Rejection Claims and General Unsecured Claims – with a better recovery than in a chapter 7 liquidation. Accordingly, the Debtor and the Committee urge Creditors to vote to accept the Plan by filing with the Clerk of the Court their properly completed ballots on or before **5 p.m.**, prevailing central time, on **June 28, 2012.**

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Respectfully submitted,

American Diagnostic Medicine, Inc.

By: /s/ Sam Kancherlapalli
Sam Kancherlapalli
President of the Debtor

COUNSEL:

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AND

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

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Michele Draper, Committee Chair

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