UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WISCONSIN

In re:

Restore Health Pharmacy, LLC, et al.,[1]	Case No. 3-15-14095-cjf (Jointly Administered)
Debtors.	(Chapter 11)

DISCLOSURE STATEMENT FOR PLAN OF LIQUIDATION OF RESTORE HEALTH PHARMACY, LLC AS OF ~~JANUARY 26~~MARCH 27, 2017

THIS DISCLOSURE STATEMENT IS SUBMITTED FOR DETERMINATION BY THE COURT REGARDING WHETHER IT CONTAINS ADEQUATE INFORMATION AS REQUIRED BY § 1125 OF THE CODE. SUCH DETERMINATION, HOWEVER, WILL NOT CONSTITUTE RECOMMENDATION OR APPROVAL OF THE PLAN BY THE COURT AND YOU SHOULD EACH REACH YOUR OWN CONCLUSION ABOUT HOW TO VOTE ON THE PLAN.

[1] Jointly administered with *In re Restore Holdings, LLC, f/k/a Biodermal Labs, LLC* (Case No. 3-15-14103-~~rdm~~cjf), *In re Belvidere Labs, LLC* (Case No. 3-15-14104-~~rdm~~cjf), and *In re TCS Labs, LLC* (Case No. 3-15-14105-~~rdm~~cjf).

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INTRODUCTION

Restore Health Pharmacy, LLC (the "Debtor") submits this Disclosure Statement pursuant to § 1125 of the Bankruptcy Code, 11 U.S.C. § 101 *et seq.* (the "Code"), to all known holders of claims against the estate of the Debtor entitled to vote on the Debtor's plan in order to disclose information deemed to be material, important, and necessary for creditors of the Debtor to make an informed decision in exercising their right to vote for acceptance or rejection of the Plan of Liquidation of Restore Health Pharmacy, LLC as of ~~January 26~~March 27, 2017 (the "Plan"). The Plan has been filed with the United States Bankruptcy Court for the Western District of Wisconsin (the "Court"), and a copy of the Plan is attached as Exhibit 1 hereto.

THIS DISCLOSURE STATEMENT HAS BEEN SUBMITTED FOR A DETERMINATION BY THE COURT AS TO WHETHER IT CONTAINS ADEQUATE INFORMATION AS REQUIRED BY SECTION 1125 OF THE CODE. THIS DETERMINATION DOES NOT CONSTITUTE RECOMMENDATION OR APPROVAL OF THE PLAN BY THE COURT.

SUMMARY AND OVERVIEW

As more fully explained below, here is the Debtor's best estimate of how creditors are to be paid under the Debtor's Plan:

Type of Creditor		Amount to be paid		When payment will be made
Administrative Claims		100% of Allowed amount of Claim		On the Effective Date or as soon thereafter as Claim is Allowed. The Effective Date is anticipated to be in June, 2017.
Priority Wage Claims		100% of Allowed amount of Claim		On the Effective Date or as soon thereafter as Claim is Allowed.
Class 1 Claim (Secured Portion of BMO Harris Bank, N.A. Claim)		The amount of any remaining uncollected receivables of the Debtor, Restore Health Pharmacy, LLC. Not likely to exceed $25,000.		When and if receivables are collected.
Class 2 Claims (General Unsecured Claims)		Approximately 2-2.5% of Allowed amount of Claim, depending on the amounts of Allowed Administrative and Priority Wage Claims		On the Effective Date or as soon thereafter as Claim is allowed.

VOTING PROCEDURES AND CONFIRMATION OF THE PLAN

The Court has scheduled a Confirmation Hearing on _____, 2017, at _____ o'clock ____. and has directed that notice of the Confirmation Hearing be given to holders of all claims against the Debtor or its estate in accordance with the Federal Rules of Bankruptcy Procedure. At the Confirmation Hearing, the Court will enter an order confirming the Plan (the "Confirmation Order") if sufficient acceptances of the Plan and the statutory requirements have been met. This hearing may be continued or adjourned without further notice to creditors except those who appear at the initial hearing.

The Court has directed that acceptances or rejections of the Plan be filed in writing by the holders of allowed claims against the Debtor whose votes are being solicited on or before _____, 2017.

Completed ballots should be mailed or otherwise delivered to:

Leverson & Lucey Metz S.C.
106 West Seeboth Street, Suite 204-1
Milwaukee, WI 53204
Attention: Donna B. Krueger
E-mail: dbk@levmetz.com

If your ballot is damaged or lost, or if you have any questions concerning voting, you may contact Mrs. Krueger at (414) 271-8500.

In order for the Plan to be accepted and thereafter confirmed by the Court, it must be accepted or deemed to be accepted by each class of claims contained in the Plan, except where the "cram-down" provisions of the Code are applicable. A class of claims has accepted the Plan if it has been accepted by creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims of such class held by creditors who have accepted or rejected the Plan. A class that is not impaired under the Plan is deemed to have accepted the Plan.

The Code allows the Court to confirm a plan or to "cram-down" a plan despite its rejection by a class of impaired creditors under some circumstances. The Code provides that if a class whose rights are impaired rejects a plan, then such a plan cannot be confirmed unless the Court concludes that the plan "does not discriminate unfairly, and is fair and equitable" with respect to the claims of the impaired class.

HISTORY OF THE DEBTOR

Restore Health Pharmacy, LLC (the "Debtor") was organized in 2011 to acquire the assets of Madison Pharmacy Associates, d/b/a Women's Health America. Madison Pharmacy Associates was a compounding pharmacy founded in 1982. It pioneered the delivery of bioidentical hormone replacement drugs for women, with a special focus on

effective treatment of options for menopause, premenstrual syndrome, and thyroid conditions. Both Madison Pharmacy Associates and the Debtor were involved in clinical trials of compounding medication in connection with such institutions as the Waisman Center at the University of Wisconsin.

The Debtor acquired the business of Madison Pharmacy Associates in 2011 in an asset purchase transaction for $4 million, with the majority of the purchase price financed by the seller. The Debtor is a wholly-owned subsidiary of Restore Holdings, LLC, also a debtor in these jointly administered Chapter 11 cases. The business plan of Restore Holdings, LLC was to acquire and consolidate a number of highly regarded compounding pharmacies across the country and turn them into a preeminent network of natural compounding businesses. Toward that end, Restore Holdings, LLC acquired Belvidere Labs, LLC ("Belvidere") of Highland Park, New Jersey, and TCS Labs, LLC ("TCS") of St. Petersburg, Florida, in 2014.

The Debtor, as well as its sister companies Belvidere and TCS, were full-service compounding pharmacies. Although the majority of the prescriptions the Debtor had historically filled were for women's bioidentical hormone replacement drugs, the Debtor was a full-service compounding pharmacy. Together with its affiliates, it had on hand approximately 10,000 unique compounded formulation recipes, used in the treatment of a very broad range of medical conditions.

The market for compounded pharmaceuticals appeared very promising in 2014. The Debtor and its affiliates Belvidere and TCS collectively had sales of over $30 million. The Debtor sought financing to enable it to continue to grow. In January, 2015, BMO Harris Bank, N.A. extended the Debtor, its parent company Restore Holdings, LLC, and their affiliates Belvidere and TCS a credit facility in the aggregate amount of $6.7 million. Most of the credit facility was used to retire existing seller financing.

EVENTS LEADING TO THE FILING OF THE PETITION

The health care market is dynamic. Compounded pharmaceuticals, being individualized products, are expensive to produce and expensive compared to mass-produced pharmaceuticals. Beginning in and around May, 2015, the Debtor and other compounding pharmacies experienced substantial downward pressure from payors. Many insurers no longer covered compounding drugs. Many pharmacy benefit managers tried to terminate contracts with compounding pharmacies. Regulatory scrutiny increased in part in response to a meningitis outbreak caused by non-compliant practices at one compounding pharmacy, New England Compounding Pharmacy, Inc. Compounding pharmacies such as the Debtor thus faced decreasing sales, decreasing prices, and increased costs, including the substantial personnel costs of quality assurance and other regulatory compliance programs.

The Debtor addressed these challenges by continuing to seek economies of scale by growing its business. In September, 2015, the Debtor announced that it had entered into a

contract (through its affiliate, Restore Partners, LLC) with Diplomat Pharmacy, Inc., the nation's largest independent specialty pharmacy (traded on the New York Stock Exchange), to acquire Diplomat's compounding pharmacy assets. By divesting itself of its compounding pharmacy assets, Diplomat was able to focus exclusively on specialty pharmaceuticals -- but not personalized compounded drugs.

The Diplomat book of business was very difficult and expensive for the Debtor to integrate into its business. By their very nature, compounded drugs are one-offs: individualized drugs prepared one at a time for specific patients. The Debtor took pride in being able to say that not once in the thirty-plus-year history of its business did it or its predecessor Madison Pharmacy Associates ever have an untoward drug event of any kind. The Debtor maintained more than the industry ratio of pharmacists (to prescriptions filled) on staff, cutting-edge technology, and an extensive compliance program designed to ensure compliance with all of the various regulatory requirements the highly regulated pharmaceutical industry faces. The personnel who fill prescriptions are well-compensated pharmacists (typically earning in the low six figures) and pharmacy technicians. As the Debtor's staff worked overtime in the fall of 2015 to integrate the Diplomat book of business into its own, and the Debtor found it necessary to hire additional staff, it became increasingly apparent that achieving economies of scale and making a profit would be extremely difficult where compliance needs dictated substantial individual work by well-paid, skilled people.

The Debtor was unable to return to profitability by absorbing the Diplomat book of business. In October, 2015, the Debtor stopped accepting new prescriptions and began winding down its operations. On November 16, 2015, the Debtor and its affiliates Restore Holdings, LLC, Belvidere, and TCS, filed voluntary petitions commencing jointly administered Chapter 11 cases in the United States Bankruptcy Court for the Western District of Wisconsin.

HISTORY OF THE CHAPTER 11 CASES

From the inception of these Chapter 11 cases, it was never the debtors' intention to reorganize. Rather, they sought to sell the assets of the three operating entities -- Restore Health Pharmacy, Belvidere, and TCS -- as much as possible as going concerns. Accordingly the debtors engaged SSG Capital Advisors, LLC as investment banker to locate buyers for the assets of those entities. The Bankruptcy Court authorized the use of cash collateral and the debtors remained in possession of their estates.

Restore Health Pharmacy, LLC ceased active pharmacy operations in late 2015. Its remaining assets were sold to Pharmacy Solutions pursuant to an order of the Bankruptcy Court entered on March 15, 2016. Belvidere ceased active operations in February, 2016. Its assets and those of TCS (which did not cease active operations) were sold to Creative Pharmacy Solutions, LLC d/b/a Pharmacy Innovations for $45,000 ($22,500 to TCS and $22,500 to Belvidere) pursuant to an order of the Bankruptcy Court entered on April 1, 2016.

The most significant event that has occurred in these cases since the asset sales were consummated in the spring of 2016 was the commencement by BMO Harris Bank, N.A., on July– 21, 2016, of an adversary proceeding within the bankruptcy case, and the ensuing mediation resulting in the settlement that is incorporated into the terms of this Plan. For a fuller description of these matters, *see below*, "BMO Harris Bank, N.A. Allegations and Compromise."

PLAN OF LIQUIDATION

The following is a simplified description of the Plan, which is Exhibit 1 to this Disclosure Statement. REFERENCE SHOULD BE MADE TO THE PLAN FOR A FULL ANALYSIS OF ITS CONTENTS; THE DESCRIPTION CONTAINED HEREIN IS QUALIFIED IN ITS ENTIRETY BY SUCH REFERENCE.

Purpose of the Plan

The primary purpose of the Plan is to permit the orderly liquidation of the Debtor in a manner consistent with the rights of the creditors to receive distributions pursuant to the priority provisions of the Code. The Debtor believes that a liquidation under Chapter 7 of the Code would not be in its best interests or its creditors and would produce less for creditors than will be achieved by the Plan. *See* "LIQUIDATION ANALYSIS."

Treatment of Claims

Administrative Priority Claims. Administrative Priority Claims include all costs and expenses of the administration of the Chapter 11 case allowed under § 503(b) of the Code and entitled to priority under § 507(a)(2) of the Code. The Plan provides for payment in full of all allowed administrative expenses promptly after the Effective Date unless paid prior thereto or if the holder of such administrative expense has agreed to a different treatment. Any administrative expense that remains subject to an objection as of the Effective Date, and therefore has not yet been allowed by the Bankruptcy Court, will be paid in the amount ultimately allowed or otherwise agreed, promptly after resolution of the objection.

Leverson Lucey & Metz S.C., bankruptcy counsel to the Debtor, anticipates that it will have an unpaid ~~administrative claim~~Administrative Claim against this Debtor of $12,000 upon confirmation. FisherBroyles, LLP, special counsel to the Debtor for regulatory compliance and private and public healthcare billing issues, is anticipated to have an ~~administrative claim~~Administrative Claim of $11,000; it has sufficient retainer remaining to cover its anticipated ~~administrative claim~~Administrative Claim. The Court will ultimately review and determine the allowability and amounts of all fees paid or to be paid to the professionals described above. All fees of professionals approved by the Court will be paid from the bankruptcy estate.

In addition to the above professional fees, the Debtor estimates that it will owe a United States Trustee quarterly fee of $1,950.00 for the second quarter of 2017.

As described below in "Insider Transactions," the Debtor and its affiliates engaged in a number of interentity transfers both before and after their bankruptcy filings. None of the Debtors in these jointly administered cases will assert an Administrative Claim for such transfers.

Priority Wage Claims. Priority Wage Claims are Claims entitled to priority under Code § 507(a)(4) or which would be entitled to priority under Code § 507(a)(4) but for having been scheduled by the Debtor as Secured. The Plan provides for payment of all Priority Wage Claims promptly after the Effective Date. Any Priority Wage Claim that remains subject to an objection as of the Effective Date, and therefore has not yet been allowed by the Bankruptcy Court, will be paid in the amount ultimately allowed or otherwise agreed, promptly after resolution of the objection.

The Debtor estimates that Priority Wage Claims in the aggregate amount of $44,457.68 will ultimately be allowed.

Class 1 Claim (Secured Claim of BMO Harris Bank, N.A.). The Class 1 Claim is impaired. The Class 1 Claim is secured by a perfected first priority security interest in the personal property of the Debtor~~.~~, excluding tort claims, which are not subject to a U.C.C. security interest unless specifically described in the security agreement. (Since the settlement described below in "BMO Harris Bank, N.A. Allegations and Compromise" is a settlement of such claims, and those claims were not specifically set forth in BMO Harris Bank, N.A.'s security agreement, the Plan provides that BMO Harris Bank N.A. shares in the settlement proceeds only as an unsecured [Class 2] creditor.) The amount of the Class 1 Claim as of the Petition Date was approximately $5,791,299.50. The Plan treats all but $25,000 of this amount as a General Unsecured (Class 2) Claim. The Class 1 Claim was undersecured even as of the Petition Date and remains largely unsecured now. On the Effective Date, the Debtor will surrender to BMO Harris Bank, N.A. any and all accounts receivable, whether or not internally written off, and shall provide BMO Harris Bank, N.A. with a list of the names and addresses of account debtors and the amounts owed.

Because BMO Harris Bank, N.A. possesses Allowed Claims both in this case and in the Restore Holdings, LLC case, it is entitled to receive dividends in both cases, provided, however, it does not receive, in the aggregate, more than the Allowed amount of its Claim. This will not occur.

Class 2 Claims (General Unsecured Claims against the Debtor). The Class 2 Claims are impaired. Class 2 Claims consist of all General Unsecured Claims against the Debtor, including the unsecured portion of the Claim of BMO Harris Bank, N.A. The Debtor estimates that Class 2 Claims will be allowed in the aggregate amount of $6,320,000. Of that amount, $5,766,299.50 represents the unsecured deficiency Claim of BMO Harris Bank, N.A. (its total Claim, minus the $25,000 portion the Plan treats as a Class 1 Allowed Secured Claim). Promptly after the Effective Date, the Debtor will distribute, Pro Rata, the remainder of a settlement payment made by the Insurer to the holders of Allowed Class 2 Claims, after first paying Administrative and Priority Wage Claims and making reserve for a

Pro Rata payment on account of any Claims that remain subject to dispute. If there are any disputed Claims, the Debtor will make a second distribution to the holders of Allowed Class 2 Claims once all disputes are resolved.

As described below in "Insider Transactions," the Debtor and its affiliates engaged in a number of interentity transfers both before and after the bankruptcy filing. None of the Debtors in these jointly administered cases has filed or asserted a Claim for any such transfer, and accordingly no such Claim shall share in the distribution on account of Class 2 Claims.

As noted above in "Summary and Overview," the dividend the Debtor anticipates holders of Allowed Class 2 Claims will receive is somewhere between 2% and 2.5% of the Allowed amount of their Claims, depending on such factors as the amounts of Administrative and Priority Claims that are ultimately Allowed. General unsecured creditors of the Debtor's affiliate Restore Holdings, LLC will receive a higher dividend -- somewhere between 10% and 12% -- if the plan proposed in that case is confirmed. General unsecured creditors of the Debtor's affiliates TCS Labs, LLC and Belvidere Labs, LLC are not going to receive any distribution in their cases, in each of which there are no assets available for unsecured creditors, and in each of which cases the United States Trustee has filed a motion to dismiss or convert. These disparities in result reflect two underlying economic factors: (1) As explained below in "BMO Harris Bank, N.A. Allegations and Compromise," the substantial majority in dollar amount of the transfers BMO Harris Bank, N.A. has challenged relate to transfers made by Restore Holdings, LLC; and none of the challenged transfers were made by TCS Labs, LLC and Belvidere Labs, LLC. (2) The Restore Health Pharmacy, LLC estate has substantially more Claims entitled to Priority (in particular, Priority Wage Claims) than the estate of Restore Holdings, LLC does. Under the Bankruptcy Code, the holders of Allowed Administrative and Priority Claims must be paid in full before the holders of General Unsecured Claims are entitled to receive any distribution.

BANKRUPTCY CODE REQUIREMENTS

The Bankruptcy Code imposes requirements of acceptance of the Plan by creditors, minimum value of distributions, and feasibility. To confirm the Plan, the Court must find that all of these conditions and other conditions set forth in § 1129(a) of the Code have been met, unless the "cram-down" provisions of the Code are applicable. Thus, even if each class of creditors accepts the Plan by the requisite majorities, the Court must undertake an independent evaluation of the feasibility of the Plan and of the other statutory requirements before the Plan may be confirmed. The conditions for minimum value and financial feasibility are discussed below. The conditions for acceptance are discussed in "VOTING PROCEDURES AND CONFIRMATION OF THE PLAN."

Minimum Value

Before it may confirm the Plan, the Court must determine (with certain exceptions) that the Plan provides to each member of each impaired class of allowed claims a recovery that is at least equal to the distribution that such member would receive if the estate of the

Debtor was liquidated on the Effective Date under Chapter 7 of the Code. As described in "LIQUIDATION ANALYSIS," the Debtor has concluded that under the Plan each holder of a claim will receive or retain property of a value that is equal to or greater than the amount that such holder would receive or retain if the estate of the Debtor was liquidated outside Chapter 11.

Cash Necessary On Confirmation

The Debtor estimates they it require between $58,000 and $65,000 on hand on the Effective Date to pay Administrative Claims and the holders of Priority Claims.

FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes certain expected federal income tax consequences of the implementation of the Plan. No opinion of counsel has been obtained and no ruling has been requested or obtained from the Internal Revenue Service with respect to any of the tax aspects of the Plan, and the discussion set forth herein is not binding upon the Internal Revenue Service. 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 CONFIRMATION AND CONSUMMATION OF THE PLAN.

Tax Consequences to Creditors

Creditors may be required to recognize income or may be entitled to a deduction as the result of the implementation of the Plan. The exact tax treatment will depend on each creditor's method of accounting and the nature of each Claim in the hands of the creditor.

Generally, a creditor will recognize gain or loss equal to the difference between the amount of cash received and the creditor's tax basis in the Claim. Such gain or loss may be a capital gain or loss depending upon the creditor's particular tax situation and the nature of the Claim in the creditor's hands. Gain recognized by a creditor with respect to a Claim for which a bad debt deduction has been claimed generally will be treated as ordinary income to the extent of any such prior deduction.

Tax Consequences to the Debtor

Upon completion of the Plan, the terms of the Debtor's aggregate outstanding indebtedness will be changed. Generally speaking, a discharge or forgiveness of indebtedness creates taxable income for the taxpayer granted the discharge. The Internal Revenue Code provides an exception, however, if the taxpayer is under the jurisdiction of a bankruptcy court in a case under the Bankruptcy Code, and the taxpayer is granted a discharge of debt by the court or pursuant to a plan approved by the court. Accordingly, the Debtor will not be required to include as income any amount resulting from any discharge of indebtedness under the Plan.

INSIDER TRANSACTIONS

During the year prior to the Debtor's Chapter 11 filing, the Debtor paid its Chief Executive Officer, Dr. Murray Firestone, a total of $485,452.42 in compensation for services rendered. Dr. Firestone, who owned a minority ownership stake in Restore Holdings, LLC, received an additional $60,000 in compensation from Restore Holdings, LLC, in that year. Dr. Erika Schwartz was the Debtor's medical director; she is also Matthew Wanderer's mother-in-law. Dr. Schwartz received $5,000 a month from the Debtor for her services until the fall of 2015.

Restore Holdings, LLC ("Holdings") also engaged in a number of transactions with insiders. Following Holdings' extremely successful 2014 financial results, it paid its managing member and majority owner, Matthew Wanderer, a total of $1,151,588.74 in compensation for his services during the year preceding the November 16, 2015, bankruptcy filings. Holdings also paid Wanderer $760,300.00 in tax distributions during that year. Because Holdings is a limited liability company, its profits were not taxable at the corporate level, but, rather, are taxed as income to the individual members. Tax distributions are distributions designed to enable limited liability company members, shareholders of Subchapter S corporations, and other owners of similarly taxed entities to pay the income tax they owe because of the entity's profits. Holdings' operating agreement requires it to make tax distributions, provided Holdings was solvent at the time. Holdings' 2015 tax distributions were made in January, 2015, when Holdings was still highly profitable.

Holdings also paid its other members tax distributions in January, 2015, to enable them to pay taxes they owed on account of Holdings' 2014 income. Mark Bearce received $142,500.00 in tax distributions; Pat Keefe and Tracy Finn, $53,900.00 each; and Murray Firestone $28,200.00.

In addition to Matthew Wanderer's compensation and tax distributions, in August, 2015, Holdings made him an advance or loan against future compensation of $1,000,000. Wanderer repaid all of the advance in the fall of 2015.

In addition to these transactions with these individual insiders, the Restore entities engaged in a number of transactions both prepetition and postpetition with their affiliated entities. It was contemplated following Holdings' acquisition of Belvidere and TCS that each of these two operating subsidiaries would transfer 10% of their revenues to the Debtor to pay for administrative overhead, including such costs as accounting and audit expenses, insurance, information technology, and executive compensation. In fact, however, this was the exception rather than the rule. Both before the filing of the petition and after, Restore Holdings and Restore Health Pharmacy subsidized TCS and Belvidere. The Restore entities borrowed approximately $4.2 million from BMO to pay existing acquisition debt of TCS and Restore Health Pharmacy, and borrowed $1 million from BMO that was applied to Belvidere's acquisition debt. In addition, as sales fell after May, 2015, Restore Health Pharmacy, LLC and Restore Holdings, LLC transferred funds to Belvidere and TCS to keep them operating. Restore Health Pharmacy, LLC and Restore Holdings, LLC continued to

subsidize the operations of TCS and Belvidere, to an extent, after the Chapter 11 cases were filed, including through Restore Holdings, LLC's payment of professional retainers and Restore Health Pharmacy, LLC's payment of various administrative overhead expenses. A portion of those advances were repaid by TCS and Belvidere when their assets were sold and, in the case of TCS, from the collection of receivables. If one nets out all postpetition transfers, the result is that Restore Health Pharmacy, LLC has subsidized TCS Labs, LLC since the petition date to the extent of $21,784.30; Restore Health Pharmacy, LLC has subsidized Belvidere Labs, LLC to the extent of $4,753.28; and Restore Holdings, LLC has subsidized Restore Health Pharmacy, LLC to the extent of $106,747.78. These figures do not include professional retainers funded by Restore Holdings, LLC. Those professional fee retainers represent additional postpetition subsidies by Restore Holdings, LLC to (a) Restore Health Pharmacy, LLC of $62,288.82; (b) Belvidere Labs, LLC, of $24,901.31; and (c) TCS Labs, LLC, of $30,207.23, respectively.

BMO HARRIS BANK, N.A.
ALLEGATIONS AND COMPROMISE

As noted above in "Events Leading to the Filing of the Petition," BMO Harris Bank, N.A. ("BMO") lent the Debtor and its affiliates over $5.9 million in January, 2015, several months before the dramatic changes in insurance reimbursement levels for compounded drugs that took place in and around May, 2015. BMO was not pleased with the financial results of the Debtor and its affiliates in the fall of 2015 -- nor was it happy to have its borrowers in Chapter 11 less than a year after the loan had been made. Soon after the Chapter 11 filing, BMO arranged to take the deposition of Matt Wanderer, in an effort to learn what had gone wrong. Wanderer made himself available for deposition, and the Debtor and its affiliates provided many documents in response to BMO's requests.

On July 21, 2016, BMO filed an adversary proceeding, *BMO Harris Bank, N.A., Derivatively on Behalf of the Estates for Restore Health Pharmacy, LLC, et al. v. Matthew Wanderer, Murray Firestone, Kevin McPherson, Erika Schwartz, M.D., Mark Bearce, Pat Keefe, Tracy Finn*, No. 3-16-00065, seeking derivative standing to pursue claims purportedly belonging to the bankruptcy estates of the Debtor and Restore Health Pharmacy, LLC, for breach of fiduciary duty and related alleged transgressions. The underlying events complained of in BMO's complaint are generally described above in "INSIDER TRANSACTIONS." A copy of the complaint is also available upon request from the undersigned.

The Debtor and Wanderer found BMO's allegations lacking in merit, but believed that it would serve no one's interests to engage in full-blown, and undoubtedly expensive, litigation. It was preferable, the Debtor and Wanderer believed, for the parties to the dispute to conduct a prompt mediation, in the hope that some reasonable resolution could be reached. BMO and the D&O carrier, Westchester Fire Insurance Company n/k/a Chubb Group, agreed to mediate and on the selection of Ronald Peterson, an experienced Chicago bankruptcy lawyer, trustee, and mediator, as the mediator. The parties submitted mediation statements to Mr. Peterson and conducted a lengthy mediation on September 20, 2016.

The result of that mediation is the settlement agreement attached hereto as Exhibit A. In brief, the settlement provides that Westchester Fire Insurance Company n/k/a Chubb Group will pay a total of $850,000, plus up to $50,000 more for ~~administrative~~Administrative and ~~priority claims~~Priority Claims, with $170,000 of the $850,000 (and up to the additional $50,000 for administrative and priority claims) payable to the estate of the Debtor and $680,000 payable to the estate of Restore Holdings, LLC, for releases of any claims of the bankruptcy estates against its insureds, Matt Wanderer, Erika Schwartz, Kevin McPherson, Murray Firestone, Mark Bearce, Pat Keefe, and Tracy Finn, and itself. The settlement further provides that if BMO receives, in the aggregate, $1 million in distributions from the Debtor, its affiliates, and from Wanderer, BMO will release Wanderer on any contractual obligations, notably, his personal guarantee of the BMO debt.

All of the Priority Claims, and the majority of the Administrative Claims for which Westchester Fire Insurance Company n/k/a Chubb Group has agreed to pay up to an additional $50,000 are Claims against Restore Health Pharmacy, LLC rather than Restore Holdings, LLC. Thus the Debtor believes that the total value of the settlement is approximately $220,000 to the estate of Restore Health Pharmacy, LLC and $680,000 to the estate of Restore Holdings, LLC. This allocation roughly reflects that, of the transfers challenged by BMO, $1,194,573.42 were transfers made by Restore Health Pharmacy, LLC to insiders, while approximately three times as much -- $3,250,388.40 -- were transfers made by Restore Holdings, LLC to insiders. Moreover, the majority of the Restore Health Pharmacy, LLC transfers challenged by BMO for services performed by insiders -- and, in the Debtor's view, eminently defensible -- whereas the majority of the Restore Holdings, LLC transfers challenged by BMO were for tax dividends and (since repaid) loans which, while still defensible, are subject to somewhat more colorable challenge.

Two of the debtors in these jointly administered Chapter 11 cases -- TCS Labs, LLC and Belvidere Labs, LLC -- did not make any of the transfers BMO has challenged, nor has BMO asserted any other litigation claim against them. Accordingly, the estates of those two debtors will not share in any of the proceeds of the settlement.

The Debtor believes that the settlement is a fair resolution of the causes of action BMO has asserted, is fairly allocated, and is in the best interests of its creditors.

LIQUIDATION ANALYSIS

This is a liquidating plan. The Debtor does not believe there are other or additional assets that would be available for creditors in Chapter 7. The same assets that are being liquidated pursuant to the terms of this plan are the assets that would be liquidated in Chapter 7. The only assets remaining potentially available for distribution to creditors are (1) any proceeds of the litigation claim asserted by BMO Harris Bank, N.A., and (2) any remaining uncollected receivables. However, BMO Harris Bank, N.A. has a lien on any uncollected receivables, and their collectability at this late date is dubious.

The principal asset providing value for creditors under the terms of this plan is the resolution of the claim asserted by BMO, as described above in "BMO Harris Bank N.A. Allegations and Compromise." The Debtor doesn't think that claim would be worth more in Chapter 7 than it is in the compromise effectuated under the terms of the plan, for three principal reasons. First, to date, the Debtor has not incurred legal expense prosecuting this claim. BMO asserted it and has funded its prosecution to date. In Chapter 7, a trustee would need to hire counsel to pursue the claim. Because the Debtor's estate has no significant funds to prosecute litigation of this complexity, a trustee would likely need to engage counsel on a contingency fee basis, and the contingency fee could easily be 40% (plus, additionally, reimbursement of expenses).

Second, as noted above, the Debtor doesn't believe the allegations BMO has made are particularly compelling. While the allegations are debatable, there is certainly a substantial risk that, if a Chapter 7 trustee were to take a case of this nature to trial, he or she would lose on the merits, and recover nothing for creditors.

Third, the Debtor's D&O policy is a wasting policy. That is to say, the policy has limits, and costs of defense are subtracted from the policy limits. Substantial litigation would reduce, potentially to nothing, the amount of coverage available.

One final point. Litigating a D&O insurance claim to judgment could take years, and wrapping up a Chapter 7 case would take even longer. And a Chapter 7 trustee would be entitled to a statutory commission, plus other expenses of the Chapter 7 case.

For these reasons, the Debtor believes its plan will get more money to creditors, and years sooner, than the alternative of liquidation in Chapter 7.

Dated this ~~26th~~27th day of ~~January~~March, 2017.

RESTORE HEALTH PHARMACY, LLC

/s/ Leonard G. Leverson

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