

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WISCONSIN

In re:

Restore Health Pharmacy, LLC, et al.,¹
Debtors.

Case No. 3-15-14095-cjf
(Jointly Administered)
(Chapter 11)

**DISCLOSURE STATEMENT FOR PLAN OF LIQUIDATION
OF RESTORE HOLDINGS, LLC
AS OF 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-cjf), *In re Belvidere Labs, LLC* (Case No. 3-15-14104-cjf), and *In re TCS Labs, LLC* (Case No. 3-15-14105-cjf).

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INTRODUCTION

Restore Holdings, 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 Holdings, LLC as of 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 Claims (if any)	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)	\$25,000, from professional fee retainer refunds.	On the Effective Date.
Class 2 Claims (All General Unsecured Claims)	Approximately 10-12% of Allowed amount of Claim, depending on the amounts of Allowed Administrative and Class 2 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

The Debtor was incorporated in 2009 as Biodermal Labs, LLC. Its sole initial member was Matthew Wanderer, who contemplated a business that would manufacture and sell skin care products. Subsequently, Wanderer's business plan changed. The Debtor became, instead, a vehicle to acquire the assets of Madison Pharmacy Associates, LLC, an

established compounding pharmacy with a full range of products and a particular expertise in women's biodermal hormone replacement drugs. The Debtor changed its name to Restore Holdings, LLC, and in 2011 set up a subsidiary, Restore Health Pharmacy, LLC, that acquired the assets of Madison Pharmacy Associates. The Debtor's business plan was to acquire other well-regarded compounding pharmacies, in order to become a major participant in that market.

Several individuals acquired minority stakes in the Debtor. Mark Bearce, an acquaintance of Wanderer with an expertise in software development, was the first to acquire a minority membership interest. Later, Patrick Keefe and Tracy Finn, pharmacy industry executives both with experience and expertise in pharmacy industry mergers and acquisitions, invested in the Debtor. Subsequently, Dr. Murray Firestone, a health care industry veteran, became first a consultant and later president of Restore Health Pharmacy, LLC as well as a minority member of this Debtor.

In 2013, the Debtor acquired Belvidere Labs, LLC ("Belvidere") of Highland Park, New Jersey, and in 2014, it acquired TCS Labs, LLC ("TCS") of St. Petersburg, Florida.

The market for compounded pharmaceuticals appeared very promising in 2014. The Debtor's subsidiaries Restore Health Pharmacy, LLC, Belvidere and TCS had aggregate sales in excess of \$30 million. In January, 2015, BMO Harris Bank, N.A. extended the Debtor and its subsidiaries Restore Health Pharmacy, LLC, 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, Restore Health Pharmacy, LLC 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's subsidiaries thus faced decreasing sales, decreasing prices, and increased costs, including the substantial personnel costs of quality assurance and other regulatory compliance programs.

The Debtor and its affiliates addressed these challenges by continuing to seek economies of scale by growing their business. In September, 2015, Restore Health Pharmacy, LLC 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 Restore Health Pharmacy, LLC to integrate into its business. By their very nature, compounded drugs are one-offs: individualized drugs prepared one at a time for specific patients. Restore Health Pharmacy, LLC 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. Restore Health Pharmacy, LLC 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 Restore Health Pharmacy, LLC staff worked overtime in the fall of 2015 to integrate the Diplomat book of business into its own, and 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.

Restore Health Pharmacy, LLC was unable to return to profitability by absorbing the Diplomat book of business. In October, 2015, it stopped accepting new prescriptions and began winding down its operations. On November 16, 2015, the Debtor and its affiliates Restore Health Pharmacy, 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, LLC, 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 of its creditors, would produce less for creditors than will be achieved by the Plan, and would take substantially longer to put money in creditors’ hands. *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 on or before 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.

Levenson Lucey & Metz S.C., bankruptcy counsel to the Debtor, anticipates that it will have an Administrative Claim of \$7,000 upon confirmation. Baker Tilly Virchow Krause, LLP, tax preparer for the Debtor, is anticipated to have an Administrative Claim of \$15,000. 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 anticipates that it will owe a United States Trustee quarterly fee of \$4,875.00 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.

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.) On the Effective Date, the Debtor will pay BMO Harris Bank, N.A. all of its cash on hand from any refunds of professional fee retainers after payment of or reserve for payment of Administrative Claims. To the extent the Debtor receives any additional refunds of professional fee retainers after the Effective Date, the Debtor will promptly remit those funds, net of any ongoing expenses (such as, without limitation, U.S. Trustee quarterly fees, bank account charges, postage, wire transfer fees, or payment of bookkeeping personnel), to BMO Harris Bank, N.A. The Debtor anticipates that it will receive approximately \$37,719.50 in professional fee retainer refunds -- \$14,719.50 from Haus Roman & Banks S.C. and approximately \$23,000.00 from FisherBroyles, LLP.

The Plan treats the Claim of BMO Harris Bank, N.A. as a secured (Class 1) Claim to the extent of \$25,000. The balance of BMO Harris Bank, N.A.’s Claim is treated as a Class 2 Claim.

Because BMO Harris Bank, N.A. possesses Allowed Claims both in this case and in the Restore Health Pharmacy, 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). On the Effective Date, the Debtor will distribute the \$680,000 Holdings D&O Settlement Payment, minus the amounts necessary to pay in reserve for Administrative Claims, *pro rata* to the holders of Allowed Class 2 Claims.

The Debtor believes that the aggregate amount of Class 2 Claims ultimately allowed by the Court will be approximately \$5,777,849.63.

As noted above in “Summary and Overview,” the dividend the Debtor anticipates holders of Allowed Class 2 Claims will receive is somewhere between 10% and 12% of the Allowed amount of their Claims, depending on such factors as the amounts of Administrative Claims that are ultimately Allowed. General unsecured creditors of the Debtor’s affiliate Restore Health Pharmacy, LLC will receive a lesser dividend -- somewhere between 2% and 2.5% -- 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.

Means of Implementation

As part of the Plan, the Debtor shall retain all property of the estate including, but not limited to, its cash deposits and cash collateral, except for property, obligations, assets, security interests, liens, stock and other interests to be paid or granted to holders of Claims or as otherwise required by the Plan. To provide funding for the Plan, the Debtor anticipates using its cash on hand plus the payment of \$680,000 by Westchester Fire Insurance Company n/k/a Chubb Group (see below, “BMO Harris Bank N.A. Allegations and Compromise”) to be made pursuant to the Plan.

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.

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 it will require \$27,000 on hand on the Effective Date to pay Administrative 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

Following the Debtor's 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 Debtor's November 16, 2015, bankruptcy filing. The Debtor also paid Wanderer \$760,300.00 in tax distributions during that year. Because the Debtor 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. The Debtor's operating agreement requires it to make tax distributions, provided the Debtor was solvent at the time. The Debtors' 2015 tax distributions were made in January, 2015, when the Debtor was still highly profitable.

The Debtor also paid its other members tax distributions in January, 2015, to enable them to pay taxes they owed on account of the Debtor's 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. Murray Firestone also received \$60,000.00 in compensation from the Debtor in the year prior to the filing of its petition. (He additionally received \$485,452.42 in compensation during that year from Restore Health Pharmacy, LLC.)

In addition to Matthew Wanderer's compensation and tax distributions, in August, 2015, he received 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 the above transfers made by the Debtor, the Debtor's subsidiary Restore Health Pharmacy, LLC made several transfers that benefitted insiders. As noted above it paid Murray Firestone a total of \$485,452.42 in compensation for his services during the year prior to the Restore entities' Chapter 11 filings. Restore Health Pharmacy, LLC also paid Dr. Erika Schwartz, Matthew Wanderer's mother-in-law, \$5,000.00 a month for her services as its medical director for several years prior to the Chapter 11 filings.

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-rdm, 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 to the Plan 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 and Priority Claims, with \$680,000 of the \$850,000 payable to the estate of the Debtor and \$170,000 payable to the estate of Restore Health Pharmacy, 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 available for distribution are a potential litigation claim, and professional fee retainer refunds on which BMO Harris Bank, N.A. possesses a lien.

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 27th day of March, 2017.

RESTORE HOLDINGS, LLC

/s/ Leonard G. Levenson

Leonard G. Levenson

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