

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	Chapter 11
)	
INSIGHT HEALTH SERVICES)	Case No. 10-16564 (AJG)
HOLDINGS CORP., <u>et al.</u> , ¹)	
)	
Debtors.)	Jointly Administered

**DECLARATION OF SCOTT MCKEE IN SUPPORT OF THE
DEBTORS' MOTION FOR ENTRY OF AN ORDER AUTHORIZING THE
SALE OF THE DEBTORS' NORTHERN CALIFORNIA CENTERS FREE AND
CLEAR OF ALL LIENS, CLAIMS, ENCUMBRANCES AND OTHER INTERESTS**

I, Scott McKee, declare as follows under penalty of perjury under 28 U.S.C. § 1746:

1. I am the Senior Vice President of Strategic Development at InSight Health Services Holdings Corp., one of the above-captioned debtors and debtors in possession (collectively, the "Debtors") in these chapter 11 cases, and I have held that position since 2008. I received Bachelor of Arts and Masters of Business Administration from the University of North Dakota.

2. Based on my experience at InSight Health Corp. and in connection with my responsibilities as Senior Vice President of Strategic Development, I am intimately familiar with the businesses of the Debtors as well as the proposed sale of their interests in four of their imaging centers located in Northern California and all other related assets (collectively, the

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, include: InSight Health Services Holdings Corp. (0028); InSight Health Services Corp. (2770); Comprehensive Medical Imaging Centers, Inc. (6946); Comprehensive Medical Imaging, Inc. (2473); InSight Health Corp. (8857); Maxum Health Services Corp. (5957); North Carolina Mobile Imaging I LLC (9930); North Carolina Mobile Imaging II LLC (0165); North Carolina Mobile Imaging III LLC (0251); North Carolina Mobile Imaging IV LLC (0342); North Carolina Mobile Imaging V LLC (0431); North Carolina Mobile Imaging VI LLC (0532); North Carolina Mobile Imaging VII LLC (0607); Open MRI, Inc. (1529); Orange County Regional PET Center - Irvine, LLC (0190); Parkway Imaging Center, LLC (2858); and Signal Medical Services, Inc. (2413). The location of the Debtors' corporate headquarters and the Debtors' service address is: 26250 Enterprise Court, Suite 100, Lake Forest, California 92630.

“Northern California Centers”) as further described in the *Debtors’ Motion for Entry of an Order Authorizing the Sale of the Debtors’ Northern California Centers Free and Clear of All Liens, Claims, Encumbrances and Other Interests* (the “Motion”). The Northern California Centers consist of (a) three imaging centers located in Northern California that are wholly-owned by the Debtors and (b) the Debtors’ 70-percent limited liability company membership interests in another Northern California imaging center.

3. I submit this declaration to support the relief requested in the Motion. Unless otherwise indicated, all facts set forth in this declaration are based upon (a) my personal knowledge of the Debtors’ current operations and financial performance, (b) information learned from my review of relevant documents and (c) information I have received from members of the Debtors’ management or advisors. I am authorized to submit this declaration on behalf of the Debtors, and, if I were called upon to testify, I could and would testify competently to the facts set forth herein.

I. Deciding to Sell the Northern California Centers.

4. The Debtors regularly evaluate the profitability of each of their imaging centers in an effort to assess whether continuing operations or selling or closing any particular center will best maximize enterprise value. During the course of this review, in 2009 and into 2010, other members of the Debtors’ management and I determined that the profitability of the Northern California Centers had continually declined and that continued operation of the Northern California Centers was negatively impacting the Debtors’ liquidity.

5. In particular, from June 2009 to November 2009, average monthly revenue for each of the Northern California Centers declined from approximately \$214,000 to approximately \$170,000 (a decrease of over 20 percent) and monthly earnings decreased, on average,

14 percent from July 2009 to September 2010. In addition, average monthly operating income for each center dropped from approximately \$73,000 to approximately \$7,000.

6. In light of the declining operating performance of the centers, beginning in mid-2009, I, along with certain other members of management, explored strategic alternatives for the Northern California Centers, including: closing imaging centers; selling individual imaging centers; or making capital investments to become more competitive in the Northern California region. By the summer of 2010, the Debtors had sold one imaging center and closed an additional imaging center in Northern California. By this time, the Debtors also had determined that it would be most cost-efficient to entirely exit the Northern California market by selling the remaining Northern California Centers.

II. Marketing the Northern California Centers and the Proposed Sale.

7. After the Debtors decided to sell the Northern California Centers, I, together with certain other employees of the Debtors, contacted and provided diligence to several potential purchasers regarding the sale of the Northern California Centers. Potential purchasers conducted several weeks of due diligence, after which the Debtors initially received four offers to purchase the Northern California Centers.

8. The highest of the four bids received by the Debtors offered approximately \$9 million for all of the Northern California Centers and two other imaging centers, net certain associated accounts receivable and working capital. On behalf of the Debtors, I (and other Debtor employees) engaged in negotiations with this bidder over the terms of an asset purchase agreement. Despite several months of diligence and negotiations, the Debtors were not able to agree to final terms for the proposed transaction with the bidder, and the bidder withdrew its offer due to the ability of the bidder to secure funds to consummate the transaction.

9. I, and certain other members of the Debtors' management, then re-engaged in discussions with other potential purchasers and, ultimately, two prospective purchasers, including SimonMed Imaging, Incorporated ("SimonMed"), provided competing bids in the fall of 2010. Each bid proposed to purchase the Northern California Centers. However, only SimonMed's bid allowed the Debtors to retain approximately \$1 million of accounts receivable owed on account of services provided at the Northern California Centers prior to the sale closing date. SimonMed also offered a higher cash purchase price of \$6.6 million (compared to the other bidder's \$6.0 million offer). In light of the approximately \$1.6 million value difference between the bids, the Debtors determined that SimonMed's bid was the highest and best offer.

10. During October, November and December 2010, the Debtors negotiated the terms of an asset purchase agreement with SimonMed and the various ancillary business arrangements necessary to consummate the sale. As a result of extensive, arm's-length negotiations, in early January 2011, the Debtors and SimonMed finalized executed the asset purchase agreement regarding the sale of the Northern California Centers.

11. I believe, based on my experience and knowledge, that the value the Debtors' estates will receive for the sale of Northern California Centers as a group exceeds the value the Debtors could obtain for the Northern California Centers if the Debtors were to liquidate these assets piecemeal. Further, no other entity or group of entities made an offer to purchase the Northern California Centers that could be consummated for what would result in greater economic value to the Debtors' estates than SimonMed. Thus, I have determined, in my sound business judgment, that the proposed sale to SimonMed will provide a greater recovery for the Debtors' estates than would be provided by any other alternative that is available to the Debtors.

12. Additionally, as the largest and most advanced medical imaging provider in the Southwestern United States, I believe that SimonMed has the necessary resources to satisfy the post-closing obligations under the contracts assumed and assigned to SimonMed pursuant to the sale, and the counterparties to such contracts, I believe, can, therefore, be adequately assured of future performance under the assumed contracts.

13. In addition, in light of the extensive prepetition marketing efforts conducted by the Debtors, I believe that an auction process would not result in any higher or better offers and would merely delay the consummation of the sale and cause the Debtors to incur further uncompensated carrying costs.

14. In light of the foregoing, based on my knowledge of the Northern California Centers operations and experience in marketing these centers over several months, I believe that (a) the Debtors engaged in an extensive marketing process with respect to the Northern California Centers and (b) the sale of the Northern California Centers to SimonMed pursuant to the asset purchase agreement attached to the Motion provides the highest and best value to the Debtors' estates and their creditors.

[Remainder of page intentionally left blank.]

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Date: January 18, 2011

/s/ Scott McKee

Scott McKee
Senior Vice President, Strategic Development
InSight Health Corp.
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