

James H.M. Sprayregen, P.C.  
Edward O. Sassower  
KIRKLAND & ELLIS LLP  
601 Lexington Avenue  
New York, New York 10022  
Telephone: (212) 446-4800  
Facsimile: (212) 446-4900

- and -

Ryan Blaine Bennett (*pro hac vice* pending)  
Paul Wierbicki (*pro hac vice* pending)  
KIRKLAND & ELLIS LLP  
300 North LaSalle Street  
Chicago, Illinois 60654  
Telephone: (312) 862-2000  
Facsimile: (312) 862-2200

Proposed Counsel to the Debtors and Debtors in Possession

**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> , <sup>1</sup> | ) |                                  |
|  | ) |                                  |
| Debtors.                                     | ) | (Joint Administration Requested) |
|  | ) |                                  |

---

<sup>1</sup> 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.

**DEBTORS' APPLICATION FOR ENTRY OF AN ORDER AUTHORIZING THE  
EMPLOYMENT AND RETENTION OF JEFFERIES & COMPANY, INC. AS  
INVESTMENT BANKERS AND FINANCIAL ADVISORS FOR THE DEBTORS  
AND DEBTORS IN POSSESSION EFFECTIVE *NUNC PRO TUNC*  
TO THE PETITION DATE**

The above-captioned debtors and debtors in possession (collectively, the “Debtors”) hereby apply to the Court, pursuant to this application (this “Application”), for the entry of an order, substantially in the form of Exhibit A, authorizing the Debtors to employ and retain Jefferies & Company, Inc. (“Jefferies”) as their investment bankers and financial advisors *nunc pro tunc* to the Petition Date (as defined herein). In support of this Application, the Debtors submit the declaration of Frank Merola, a Managing Director of Jefferies (the “Merola Declaration”), attached hereto as Exhibit B. In support of this Application, the Debtors respectfully state as follows:<sup>2</sup>

**Jurisdiction**

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2).
2. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.
3. The statutory bases for the relief requested herein are sections 327(a) and 328(a) of title 11 of the United States Code (the “Bankruptcy Code”), Rules 2014(a) and 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and Rules 2014-1 and 2016-1 of the Local Bankruptcy Rules for the Southern District of New York (the “Local Bankruptcy Rules”).

---

<sup>2</sup> The facts and circumstances supporting this Motion are set forth in the Declaration of Keith S. Kelson of InSight Health Services Holdings Corp. (I) in Support of Debtors’ Chapter 11 Petitions and First Day Motions and (II) Pursuant to Local Bankruptcy Rule 1007-2 (the “First Day Declaration”), filed contemporaneously herewith and incorporated herein by reference.

## **Background**

4. The Debtors and their affiliates are a leading diagnostic medical imaging services provider that own and operate a network of 62 fixed-site imaging centers and 104 mobile facilities in more than 30 states. Through their imaging centers and mobile facilities, the Debtors provide magnetic resonance imaging, ultrasound, x-ray and other diagnostic imaging services that generate representations of internal anatomy used by physicians for the diagnosis of certain medical conditions.

5. Through a prior restructuring, the Debtors converted their subordinated unsecured debt into common equity and, thereby, reduced their debt service costs and preserved liquidity. The Debtors believed, at that time, that they would be able to maintain competitive operations without the need for further deleveraging. However, as with other businesses and individuals, the significant economic downturn of 2008 and 2009, the effects of which are still felt today, reduced demand for the Debtors' services, making it necessary for the Debtors to further restructure their debt obligations.

6. Beginning in the fall of 2010, the Debtors engaged in discussions with their revolving loan agent and major senior secured noteholders regarding a consensual debt restructuring. Prior to filing these chapter 11 cases, the Debtors successfully negotiated and obtained agreement from their major creditor constituents to the restructuring and exchange embodied in their prepackaged chapter 11 plan, filed contemporaneously herewith.

7. The proposed prepackaged plan converts all of the Debtors' senior secured notes into new common equity, eliminating more than \$290 million of debt. The plan also leaves the Debtors' general unsecured creditors unimpaired and provides them with a *full recovery* on their general unsecured claims. In connection with receiving their plan distribution, the senior secured

noteholders will convey warrants to acquire two percent of the new common stock exercisable when the enterprise value reaches a certain threshold to the Debtors' existing equity holders.

8. The Debtors launched solicitation of their plan prior to filing these chapter 11 cases to holders of the senior secured notes — the only class of claims or interests entitled to vote on the plan. As of the time of filing these chapter 11 cases, senior secured noteholders holding over two-thirds of the outstanding amount of the notes have voted to accept the plan. The Debtors expect to obtain further acceptance of the plan by the proposed December 27, 2010 voting deadline and anticipate confirming the plan expeditiously.

9. On December 10, 2010 (the "Petition Date"), each of the Debtors filed a petition with the Court under chapter 11 of the Bankruptcy Code to effectuate the prepackaged plan, enhance liquidity and solidify their long-term growth prospects and operating performance. The Debtors are operating their businesses and managing their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No request for the appointment of a trustee or examiner has been made in these chapter 11 cases, and no committees have been appointed or designated. Concurrently with the filing of this Motion, the Debtors have requested procedural consolidation and joint administration of these chapter 11 cases.

#### **Relief Requested**

10. By this Application, the Debtors respectfully request entry of an order authorizing the Debtors to retain and employ Jefferies as their investment bankers and financial advisors in these chapter 11 cases in accordance with the terms and conditions set forth in the amended and restated engagement letter dated June 4, 2010, as amended on October 1, 2010 (together and as amended, the "Engagement Letter" or the "Jefferies Agreement"), attached hereto as Exhibit C and incorporated herein, *nunc pro tunc* to the Petition Date.

## Jefferies' Qualifications

11. Jefferies is well-qualified to assist the Debtors in the matters for which the Debtors propose to retain it. Jefferies was founded in 1962 and is a wholly-owned subsidiary of Jefferies Group, Inc., which is a public company and, together with its subsidiaries, has gross assets of approximately \$32 billion and approximately 3,000 employees in more than 25 offices around the world. Jefferies provides a broad range of corporate advisory services to its clients including, without limitation, services pertaining to: (a) general financial advice, (b) mergers, acquisitions and divestitures, (c) special committee assignments, (d) capital raising and (e) corporate restructuring. Moreover, Jefferies is a registered broker-dealer with the United States Securities and Exchange Commission and is a member of the Boston Stock Exchange, the International Stock Exchange, the Financial Industry Regulatory Authority, the Pacific Stock Exchange, the Philadelphia Stock Exchange and the Securities Investor Protection Corporation.

12. Jefferies and its senior professionals have extensive experience in providing financial advisory and investment banking services to financially distressed companies and to creditors, equity holders, asset purchasers and other constituencies in reorganization proceedings and complex financial restructurings, both in- and out-of-court. Since 2005, Jefferies has been involved in over 100 restructurings representing over \$128 billion in restructured liabilities.

13. For instance, Jefferies and its professionals are providing or have provided financial advisory, investment banking and other services in connection with the restructuring of: In re Uno Rest. Holdings Corp., Case No. 10-10209 (MG) (Bankr. S.D.N.Y. Mar. 5, 2010); In re Extended Stay Inc., Case No. 09-13764 (JMP) (Bankr. S.D.N.Y. Aug. 13, 2009); In re DBSD N. Am., Inc., Case No. 09-13061 (REG) (Bankr. S.D.N.Y. July 22, 2009); In re Tronox Inc., Case No. 09-10156 (ALG) (Bankr. S.D.N.Y. June 4, 2009); In re FairPoint Comm'ns., Inc., Case No. 09-16335 (BRL) (Bankr. S.D.N.Y. Jan. 14, 2009); In re Quebecor World (USA) Inc., Case

No. 08-10152 (JMP) (Bankr. S.D.N.Y. Mar. 20, 2008); In re Delphi Corp., et al., Case No. 05-44481 (RDD) (Bankr. S.D.N.Y. June 19, 2006). See also In re RathGibson, Inc., Case No. 09-12452 (CSS) (Bankr. D. Del. Aug. 31, 2010); In re OTC Holdings Corp., Case No. 10-12636 (BLS) (Bankr. D. Del. Aug. 25, 2010); In re Sea Launch Co., Case No. 09-12153 (BLS) (Bankr. D. Del. Aug. 20, 2010); In re Med. Staffing Network Holdings, Inc., Case No. 10-29101 (EPK) (Bankr. S.D. Fl. July 26, 2010); In re The Newark Group, Inc., Case No. 10-27694 (NLW) (Bankr. D. N.J. July 6, 2010); In re Spheris Inc., Case No. 10-10352 (KG) (Bankr. D. Del. Mar. 2, 2010); In re Accuride Corp., Case No. 09-13449 (BLS) (Bankr. D. Del. Jan. 26, 2010); In re Aventine Renewable Energy Holdings, Inc., Case No. 09-11214 (KG) (Bankr. D. Del. June 24, 2009); In re Circuit City Stores Inc., Case No. 08-35653 (KRH) (Bankr. E.D. Va. Jan. 20, 2009).

14. The Debtors have selected Jefferies as their investment bankers and financial advisors based upon, among other reasons, Jefferies' knowledge of the Debtors' business and restructuring affairs. The Debtors engaged Jefferies on or about June 4, 2010, to provide financial, restructuring, and other services to the Debtors. Since the commencement of its engagement, Jefferies has become familiar with the Debtors' business operations, capital structure, financing documents, and other material information. Accordingly, the Debtors believe that Jefferies is well qualified to provide its services to the Debtors in a cost-effective, efficient, and timely manner. Jefferies has indicated a willingness to act on behalf of the Debtors and subject itself to the jurisdiction and supervision of the Court.

15. Based upon Jefferies' vast experience, expertise, and familiarity with the Debtors' business and restructuring affairs, the Debtors respectfully submit that the employment and retention of Jefferies as investment bankers and financial advisors in these chapter 11 cases is in the best interests of the Debtors' estates, their creditors, and other parties in interest.

## Scope of Services

16. Subject to the Court's approval and in accordance with the terms of the Engagement Letter, at the request and direction of the Debtors, Jefferies will perform the following investment banking and advisory services, among others, to the extent that they are desired or necessary, as further described below:<sup>3</sup>

- a. provide advice and assistance to the Debtors in connection with analyzing, structuring, negotiating and effecting (including providing valuation analyses as appropriate), and acting as exclusive financial advisor to the Debtors in connection with, any restructuring of the Debtors' outstanding indebtedness (a "Debt Restructuring") through any offer by the Debtor with respect to the Debtors' outstanding indebtedness, a solicitation of votes, approvals, or consents given effect thereto (including with respect to a prepackaged or prenegotiated plan of reorganization or other plan pursuant to the Bankruptcy Code), the execution of any agreement giving effect thereto, an offer by any party to convert, exchange or acquire any of the Debtors' outstanding indebtedness, a sale of all or substantially all of the Debtors' equity or assets (whether under section 363 of the Bankruptcy Code or otherwise) or any other similar balance sheet restructuring involving the Debtors;
- b. provide financial advisory services in connection with a financing (including a debtor-in-possession facility and exit financing) (a "Financing"), and a Financing, a Debt Restructuring, and a possible sale of the Debtors or all or substantially all of the Debtors' assets, through any form of transaction, including, without limitation, merger, reverse merger, liquidation, stock purchase, asset purchase, recapitalization, reorganization, consolidation, amalgamation or other transaction, including under section 363 of the Bankruptcy Code, and including any "credit bid" made pursuant to section 363(k) of the Bankruptcy Code, including under a prepackaged or pre-negotiated plan of reorganization or other plan pursuant to the Bankruptcy Code, and including under an Asset Based Credit Facility of the Debtors (any of the foregoing, an "M&A Transaction" and, each of a Debt Restructuring and M&A Transaction, a "Transaction"), whether in one or more Financing or Transaction involving (i) debt securities of the Debtors (including mezzanine securities of the Debtors) ("Debt Securities"), (ii) preferred or common equity or equity-linked securities of the Debtors, ("Equity Securities") and/or (iii) bank debt or a similar credit facility of the Debtors, excluding an Asset Based Credit Facility, ("Bank Debt") and any combination thereof;

---

<sup>3</sup> The summary of the Engagement Letter contained in this Motion are provided for convenience only. In the event of any inconsistency between the summary contained herein and the terms and provisions of the Engagement Letter, the terms of the Engagement Letter shall control. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Engagement Letter.

17. Jefferies will perform the following financial advisory services, among others, for the Debtors in connection with a Transaction (as applicable to the given Transaction):

- a. familiarize itself with, to the extent that Jefferies deems appropriate, and analyze, the business, operations, properties, financial condition and prospects of the Debtors;
- b. advise the Debtors on the current state of the “restructuring market”;
- c. assist and advise the Debtors in developing the terms of and a general strategy for accomplishing a Transaction;
- d. assist and advise the Debtors in implementing a Transaction;
- e. assist or participate in negotiations with parties of interest in connection with a Transaction, including, without limitation, any current or prospective creditors of, holders of equity in, or claimants against the Debtors or their respective representatives, or any prospective purchasers of the Debtors or their assets;
- f. review and analyze any proposals the Debtors receive from third parties;
- g. assist and advise the Debtors in evaluating and analyzing a Transaction, including the value of the securities, if any, that may be issued to anyone in any such Transaction;
- h. participate in hearings before the Court; and
- i. render such other financial advisory services as may from time to time be agreed upon by the Debtors and Jefferies.

18. The resources, capabilities and experience of Jefferies in advising the Debtors are crucial to the success of these chapter 11 cases. Experienced investment bankers and financial advisors, such as Jefferies, provide critical and unique services that complement the services provided by the other professionals retained by the Debtors. Jefferies will concentrate its efforts on serving as the Debtors’ investment bankers and financial advisors in these chapter 11 cases and, more specifically, in formulating strategic alternatives and assisting the Debtors in their efforts with regard to a restructuring, financing or sale (or any combination thereof). For the aforementioned reasons, the Debtors require the services of a capable and experienced investment bankers and financial advisors such as Jefferies.



19. Jefferies has already provided significant advice and services to the Debtors. The Engagement Letter provides for two stages of services; in Stage 1 Jefferies advised the Debtors in connection with an initial restructuring proposal relating to the Debtors' outstanding indebtedness (a "Debt Restructuring") and provided the Debtors with advice in connection with a possible sale of the Debtors or substantially all of the Debtors' assets. During this process, Jefferies provided the Debtors with assistance to restrict certain noteholders and participated in forbearance discussions with the Debtors' lender. Also during Stage 1, Jefferies advised and assisted the Debtors in conducting necessary analytics to prepare for a Debt Restructuring, including conducting a unit profitability analysis and liquidity forecasts. In the amendment to the Engagement Letter dated October 1, 2010, Jefferies and the Debtors agreed that the termination of Stage 1 and the commencement of Stage 2 occurred as of October 1, 2010. In Stage 2, Jefferies facilitated negotiations with both majority and significant minority noteholders and attempted an out-of-court transaction. When that failed, Jefferies was instrumental in leading the Debtors to successfully negotiate a plan. Jefferies advised the Debtors in structuring a plan support agreement that has the support of more than 70% of the notes and negotiated a DIP loan with the Debtors' lender to ensure adequate liquidity.

20. All the services that Jefferies will provide to the Debtors going forward will be undertaken at the request of the Debtors and will be appropriately directed by the Debtors so as to avoid duplicative efforts among the professionals retained in these chapter 11 cases. Moreover, Jefferies has agreed with the Debtors to use reasonable efforts to coordinate with the other professionals retained by the Debtors to avoid the unnecessary duplication of services.

#### **Jefferies' Disinterestedness**

21. Jefferies has informed the Debtors that, except as set forth in the Merola Declaration, Jefferies (a) has no connection with the Debtors, their creditors, equity security

holders or other parties in interest or their respective attorneys or accountants, United States Trustee for the Southern District of New York (the “U.S. Trustee”) or any person employed in the office of the U.S. Trustee in any matter related to the Debtors and their estates, (b) does not hold any interest adverse to the Debtors’ estates and (c) believes that it is a “disinterested person” as that term is defined in section 101(14) of the Bankruptcy Code as modified by section 1107(b) of the Bankruptcy Code, as required by section 327(a) of the Bankruptcy Code. The Debtors’ knowledge, information and belief regarding the matters set forth herein are based, and made in reliance, upon the Merola Declaration.

22. Jefferies is a global investment banking firm with broad activities covering trading in equities, convertible securities and corporate bonds in addition to its investment banking and financial advisory practice. With more than 80,000 customer accounts around the world, it is possible that one of its clients or a counter-party to a security transaction may hold a claim or otherwise is a party-in-interest in these chapter 11 cases. Furthermore, as a major market maker in equity securities as well as a major trader of corporate bonds and convertible securities, Jefferies regularly enters into securities transactions with other registered broker-dealers as a part of its daily activities. Some of these counter-parties may be creditors of the Debtors. In addition, Jefferies may act as an intermediary in certain securities lending and borrowing transactions where Jefferies borrows securities from one party and lends such securities to another party (with Jefferies effectively having a flat position in such securities). Jefferies believes none of these business relationships constitute interests materially adverse to the Debtors’ estates herein in matters upon which Jefferies is to be employed, and none are in connection with these cases. In addition, Jefferies maintains a strict separation between its employees assigned to chapter 11 cases and employees involved in the management of Jefferies’

investment banking division, on the one hand, and other employees of Jefferies (e.g., sales and trading employees) and its affiliates on the other hand. This separation is maintained through the use of information walls. These information walls include physical and technological barriers, compliance and surveillance mechanisms and policies and procedures designed to prevent confidential information from being shared improperly.

23. In 2007, Jefferies represented an ad hoc committee of Senior Subordinated Noteholders in the Debtors' prepackaged bankruptcy. Jefferies did not file an application for retention and was not retained in the bankruptcy court. The holders of these noted converted their claims into 90% of the reorganized entity. No employees of Jefferies that worked on the 2007 matter are working on these chapter 11 cases.

24. Prior to the Petition Date, Jefferies received (a) a Stage 1 engagement fee of \$200,000, (b) monthly fees for October 2010, November 2010 and December 2010 totaling \$450,000, (c) expenses totaling \$33,334 and (d) an expense retainer of \$15,000.

25. Jefferies will conduct an ongoing review of its files to ensure that no conflicts or other disqualifying circumstances exist or arise. If any new material facts or relationships are discovered or arise, Jefferies will promptly inform the Court as required by Bankruptcy Rule 2014(a).

#### **Indemnification of Jefferies**

26. Subject to the Court's approval, the Engagement Letter further provides that the Debtors will indemnify and hold harmless Jefferies and its affiliates and each of their respective officers, directors, managers, members, partners, employees and agents and any other persons controlling Jefferies or any of its affiliates (collectively, the "Indemnified Persons") from and against certain losses arising out of their engagement by the Debtors in connection with these chapter 11 cases, other than those resulting solely from the willful misconduct or gross

negligence of Jefferies (such indemnification obligations, as modified by the Order, the “Indemnification Provisions”), which provisions are attached to, and made a part of, the Engagement Letter. The Debtors submit that the Indemnification Provisions are standard in the specialized financial advisory industry and that the provision of such indemnification by the Debtors is fair and reasonable considering Jefferies’ qualifications and the expectations of other special financial advisors in connection with engagement of this scope and size. See, e.g., United Artists Theatre Co. v. Walton (In re United Artists Theatre Co.), 315 F.3d 217, 234 (3d Cir. 2003) (finding indemnification agreement between debtor and financial advisor reasonable under section 328); In re Comdisco, Inc., No. 02-01174, 2002 WL 31109431, at \*6 (N.D. Ill. Sept. 23, 2002) (mem.) (affirming order authorizing indemnification of Lazard Freres & Co. LLC and Rothschild, Inc. by the debtors); In re Joan & David Halpern, Inc., 248 B.R. 43, 47 (Bankr. S.D.N.Y. 2000), aff’d, No. 00-03601, 2000 WL 1800690, at \*2 (S.D.N.Y. Dec. 6, 2000). In addition, the Order modifies the Indemnification Provisions to conform to the practice in this jurisdiction.

27. The Indemnification Provisions are similar to other indemnification provisions that have been approved by courts in this district and other jurisdictions. See, e.g., In re Pliant Corp., Case No. 09-10443 (MFW) (Bankr. D. Del. Apr. 1, 2009) (authorizing retention of Jefferies on similar indemnification terms); In re Nortel Networks Inc., Case No. 09-10138 (KG) (Bankr. D. Del. Mar. 5, 2009) (same); In re Foamex Int’l Inc., Case No. 05-12685 (KG) (Bankr. D. Del. Nov. 8, 2005) (same); In re Tropicana Entm’t, LLC, Case No. 08-10856 (KJC) (Bankr. D. Del. May 30, 2008) (authorizing indemnification of Lazard Freres & Co. LLC by debtors); In re New Century TRS Holdings, Inc., Case No. 07-10416 (KJC) (Bankr. D. Del. Apr. 26, 2007) (same).

28. Accordingly, the Debtors request that the Court approve the Indemnification Provisions set forth in the Engagement Letter as modified by the Order.

### **Professional Compensation**

29. Subject to the Court's approval, the Debtors will compensate Jefferies in accordance with the terms and conditions and at the times set forth in the Engagement Letter, which provides in relevant part for the following compensation structure (the "Fee Structure"): <sup>4</sup>

30. Stage 2 Fees.<sup>5</sup>

- a. Monthly Fee. A monthly fee (the "Monthly Fee") of \$150,000 payable on the 1<sup>st</sup> day of each month during the term of the Engagement Letter; provided that Fifty percent (50%) of all Monthly Fees paid to Jefferies in excess of \$450,000 actually paid to Jefferies will be credited against any Transaction Fee or Financing Fee (as defined below).
- b. Transaction Fee. Upon the consummation of a Debt Restructuring or M&A Transaction entered into during these chapter 11 cases, a fee of \$2.75 million (a "Transaction Fee").
- c. Financing Fee. Upon the placement or purchase of any Debt Securities, a fee in the amount equal to 2.75% of the greater of the aggregate principal amount of Debt Securities placed and the maximum amount committed to purchase Debt Securities; upon the placement or purchase of any Equity Securities, a fee in an amount equal to 6.5% of the gross proceeds of Equity Securities; upon the execution of a definitive credit agreement by the Debtors and the lenders thereunder with respect to any Bank Debt, a fee equal to 2.0% of the maximum principal amount available under the Bank Debt.<sup>6</sup>

---

<sup>4</sup> The Engagement Letter also provides that, if the Debtors pursue any financing transaction pursuant to a rights offering or other offering of public or private securities, Jefferies has the right to act as the Debtors' financial advisor or placement agent and, with certain exceptions, to receive certain fees to be mutually determined by the Debtors and Jefferies based on the prevailing market for similar services (the "Capital Raise Fee"). However, Jefferies is not seeking the Court's approval of the Capital Raise Fee in connection with this Motion.

<sup>5</sup> Stage 1 fees were as follows: Upon the execution of the Engagement Letter, an engagement fee of \$200,000. Upon the execution of a definitive agreement for an Asset Based Credit Facility, a fee equal to 2.0% of the maximum amount available under the Asset Based Credit Facility (it being understood that such fee shall be in addition to any additional fees that may be required by lenders under the Asset Based Credit Facility).

<sup>6</sup> The Engagement Letter states that Jefferies will not be entitled to a Financing Fee in connection with an Asset Based Credit Facility with, or for any Bank Debt, Equity Securities, or Debt Securities placed with or purchased with, potential lender Healthcare Finance Group.

31. Additionally, under the terms of the Engagement Letter, the Debtors have agreed to reimburse Jefferies for its reasonable and documented disbursements and out-of-pocket expenses, subject to the fee guidelines of the U.S. Trustee, and provided that such reimbursable expenses shall not exceed \$75,000 (excluding the fees and expenses of Jefferies counsel retained in connection with a Financing) without the Debtors' prior approval.

32. The Debtors believe that the Fee Structure is comparable to compensation generally charged by investment banking firms of similar stature to Jefferies for comparable engagement, both in and out of bankruptcy. Further, the Debtors believe that the Fee Structure is consistent with Jefferies' normal and customary billing practices for cases of comparable size and complexity that require the level and scope of services to be provided in these chapter 11 cases.

33. Jefferies and the Debtors believe that the Fee Structure is both reasonable and market-based. In determining the level of compensation to be paid to Jefferies and its reasonableness, the Debtors compared Jefferies' fee proposal to the other proposals received by the Debtors in the investment banker selection process. The Debtors also compared Jefferies' proposed fees with the range of investment banking fees in other restructuring cases of comparable size and complexity. In both instances, the Debtors found Jefferies' proposed fees to be reasonable and within the range of other comparable transactions.

34. To induce Jefferies to do business with the Debtors in bankruptcy, the Fee Structure was established to reflect the difficulty of the extensive assignments Jefferies expects to undertake and the potential for failure. Jefferies' restructuring capabilities as well as its capital markets knowledge, financing skills and mergers and acquisitions expertise, some or all of which may be required by the Debtors during the term of Jefferies' engagement, were

important factors in determining the Fee Structure. In addition, the Debtors believe that the ultimate benefit to the Debtors of Jefferies' services cannot be measured by reference to the number of hours to be expended by Jefferies' professionals in the performance of such services.

35. The Fee Structure has been agreed upon by the parties in anticipation that a substantial commitment of professional time and effort will be required of Jefferies and its professionals, and in the light of the fact that such commitment may foreclose other opportunities for Jefferies and that the actual time and commitment required of Jefferies and its professionals to perform their services may vary substantially from week to week or month to month, creating "peak load" issues for Jefferies. Moreover, the Fee Structure reflects a balance between a fixed, monthly fee and a contingency amount which is tied to the consummation of the transactions and services contemplated in the Engagement Letter.

36. In addition, given the numerous issues which Jefferies may be required to address in the performance of its services, Jefferies' commitment to the variable level of time and effort necessary to address all such issues as they arise and the market prices for Jefferies' services for engagements of this nature, both in chapter 11 and out-of-court restructuring contexts, the Debtors believe that the Fee Structure is reasonable under the standards set forth in section 328(a) of the Bankruptcy Code.

37. Under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, a change was made to section 328(a) which is emphasized below:

The trustee, or a committee appointed under section 1102 of this title, with the court's approval, may employ or authorize the employment of a professional person under section 327 or 1103 of this title, as the case may be, on any reasonable terms and conditions of employment, including on a retainer, on an hourly basis, **on a fixed or percentage fee basis**, or on a contingent fee basis.

11 U.S.C. § 328(a) (emphasis added). This change makes clear the ability of the Debtors to retain, with the Court's approval, a professional on a fixed or percentage fee basis such as the Fee Structure.

38. Similar fee arrangements have been approved and implemented by courts in other large chapter 11 cases in this district and other jurisdictions. See, e.g., In re Pliant Corp., Case No. 09-10443 (MFW) (Bankr. D. Del. Apr. 1, 2009) (authorizing retention of Jefferies on similar terms); In re Nortel Networks Inc., Case No. 09-10138 (KG) (Bankr. D. Del. Mar. 5, 2009) (same); In re Foamex Int'l Inc., Case No. 05-12685 (KG) (Bankr. D. Del. Nov. 8, 2005) (same); see also In re Tropicana Entm't, LLC, Case No. 08-10856 (KJC) (Bankr. D. Del. May 5, 2008) (authorizing retention of Lazard Freres & Co. LLC by debtors on similar terms); In re Covad Comm'ns. Group, Inc., Case No. 01-10167 (JJF) (Bankr. D. Del. Nov. 21, 2001) (authorizing retention of Houlihan Lokey with compensation subject to standard of review set forth in section 328(a)); In re Harnischfeger Indus., Case No. 99-02171 (PJW) (Bankr. D. Del. Feb. 8, 2000) (authorizing retention of The Blackstone Group L.P. as investment bankers to debtors on similar terms); In re Casual Male Corp., Case No. 01-41404 (REG) (Bankr. S.D.N.Y. Mar. 18, 2001) (authorizing retention of Robertson Stephens, Inc. subject to section 328(a) standard of review).

39. In addition, in these chapter 11 cases, the general security retainer is appropriate for several reasons. See In re Insilco Techs., Inc., 291 B.R. 628, 634 (Bankr. D. Del. 2003) (KJC) ("Factors to be considered, include . . . whether terms of an engagement agreement reflect normal business terms in the marketplace; . . . the relationship between the debtor and the professionals, *i.e.*, whether the parties involved are sophisticated business entities with equal bargaining power who engaged in an arms-length negotiation[] [and]...whether the retention, as proposed, is in the best interests of the estate[] . . ."); see also Statements of Chief Bankruptcy



Judge Peter J. Walsh, In re CTC Comm'ns. Group, Inc., Case No. 02-12873 (PJW) (Bankr. D. Del. May 22, 2003), transcript of hearing held May 22, 2003, at 43 (“I agree and adopt wholeheartedly Judge Carey’s decision in the Insilco case.”). First, these types of retainer agreements reflect normal business terms in the marketplace. See In re Insilco Techs., Inc., 291 B.R. at 634 (“[I]t is not disputed that the taking of [security] retainers is a practice now common in the marketplace.”). Second, both Jefferies and the Debtors are sophisticated business entities that have negotiated the retainer at arm’s length. Third, the retention of Jefferies with the security retainer is in the best interests of the Debtors’ estates because Jefferies is both well qualified and uniquely able to represent the Debtors in these chapter 11 cases as more fully set forth above. Thus, under the standards articulated in In re Insilco Techs., Inc. and adopted by In re CTC Commc’ns Group, Inc., the facts and circumstances of these chapter 11 cases support the approval of the security retainer.

40. Denying the relief requested herein would deprive the Debtors of the assistance of a highly qualified investment banker and financial advisor such as Jefferies and disadvantage the Debtors and all parties in interest. The Debtors would be forced to engage a new investment banker and financial advisor lacking the same understanding of the Debtors’ businesses and restructuring initiatives. Forcing the Debtors to engage a new investment banker and financial advisor would also require additional time and resources at this critical time when the Debtors’ time and resources should be concentrated on increasing the value of the estates for the benefit of creditors.

41. Accordingly, the Debtors believe that the Court should approve Jefferies’ retention pursuant to the standard of review set forth in section 328(a) of the Bankruptcy Code

and that Jefferies' compensation should not be subject to any additional standard of review under section 330 of the Bankruptcy Code or otherwise.

42. Notwithstanding approval of its retention under section 328 of the Bankruptcy Code, Jefferies will apply to the Court for allowance of compensation and reimbursement of expenses in accordance with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Rules and the fee guidelines established by the U.S. Trustee, as those procedures may be modified or supplemented by order of this Court.

43. Consistent with its ordinary practice and the practice of investment bankers in other chapter 11 cases whose fee arrangements are typically not hour-based, Jefferies does not ordinarily maintain contemporaneous time records in one-tenth hour increments or provide or conform to a schedule of hourly rates for its professionals. In addition, Jefferies' restructuring personnel do not normally maintain their records on a "project category" basis and, as set forth in the Merola Declaration, Jefferies believes that for Jefferies to record their activities on a "project category" basis for its restructuring personnel would be unduly burdensome and time-consuming. Instead, Jefferies requests permission to keep time records in one hour increments without including "project categories." Accordingly, by this Motion, the Debtors are seeking, on behalf of Jefferies, a waiver pursuant to Local Rule 2016-2(g) of the requirements of Local Rule 2016-2(d): (a) to bill activities in one-tenths (.1) of an hour and provide or conform to a schedule of hourly rates and (b) to divide activity descriptions into general project categories of time.

44. As set forth in the Merola Declaration, Jefferies has not shared or agreed to share any of its compensation from the Debtors with any other person except as permitted by section 504 of the Bankruptcy Code.

**Waiver of Bankruptcy Rule 6004(a) and 6004(h)**

45. To implement the foregoing successfully, to the extent applicable, the Debtors seek a waiver of the notice requirements under Bankruptcy Rule 6004(a) and the 14-day stay of an order authorizing the use, sale or lease of property under Bankruptcy Rule 6004(h).

**The Requested Relief Is Appropriate**

46. Based on the foregoing, the Debtors submit that the relief requested is necessary and appropriate, is in the best interests of their estates and creditors and should be granted in all respects.

**Motion Practice**

47. This Application includes citations to the applicable rules and statutory authorities upon which the relief requested herein is predicated, and a discussion of their application to this Application. Accordingly, the Debtors submit that this Application satisfies Local Bankruptcy Rule 9013-1(a).

**Notice**

48. The Debtors have provided notice of this Application to: (a) the Office of the United States Trustee for the Southern District of New York; (b) the entities listed on the Consolidated List of Creditors Holding the 50 Largest Unsecured Claims filed pursuant to Bankruptcy Rule 1007(d); (c) counsel to the agent for the Debtors' prepetition secured revolving loan and proposed postpetition secured lenders; (d) the indenture trustee for the Debtors' secured floating rate notes; (e) counsel to the ad hoc group of certain holders of the Debtors' secured floating rate notes; (f) the Internal Revenue Service; and (g) the Securities and Exchange Commission. In light of the nature of the relief requested, the Debtors respectfully submit that no further notice is necessary.

**No Prior Request**

49. No prior request for the relief sought in this Application has been made to this or any other court.

*[Remainder of Page Intentionally Left Blank]*

WHEREFORE, for the reasons set forth herein and in the Merola Declaration, the Debtors respectfully request that the Court enter an order, substantially in the form attached hereto as Exhibit A, (a) authorizing the Debtors to employ and retain Jefferies as their investment bankers and financial advisors effective *nunc pro tunc* to the Petition Date and (b) granting such other further relief as is just and proper.

New York, New York  
Dated: December 13, 2010

InSight Health Services Holdings Corp.  
InSight Health Services Corp.  
Comprehensive Medical Imaging Centers, Inc.  
Comprehensive Medical Imaging, Inc.  
InSight Health Corp.  
Maxum Health Services Corp.  
North Carolina Mobile Imaging I LLC  
North Carolina Mobile Imaging II LLC  
North Carolina Mobile Imaging III LLC  
North Carolina Mobile Imaging IV LLC  
North Carolina Mobile Imaging V LLC  
North Carolina Mobile Imaging VI LLC  
North Carolina Mobile Imaging VII LLC  
Open MRI, Inc.  
Orange County Regional PET Center - Irvine, LLC  
Parkway Imaging Center, LLC  
Signal Medical Services, Inc.

/s/ Keith S. Kelson

Keith S. Kelson  
Executive Vice President and Chief Financial Officer  
InSight Health Services Holdings Corp.  
26250 Enterprise Court, Suite 100  
Lake Forest, California 92630