

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-[_____] (____)
HOLDINGS CORP., <u>et al.</u> , ¹)	
)	
Debtors.)	(Joint Administration Requested)
)	

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.

**DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS
AUTHORIZING, BUT NOT DIRECTING, THE DEBTORS TO (A) PAY CERTAIN
PREPETITION COMPENSATION AND REIMBURSABLE EMPLOYEE EXPENSES,
(B) PAY AND HONOR EMPLOYEE MEDICAL AND OTHER BENEFITS AND
(C) CONTINUE EMPLOYEE WAGES AND BENEFITS PROGRAMS**

The above-captioned debtors and debtors in possession (collectively, the “Debtors”) hereby move the Court, pursuant to this motion (the “Motion”), for the entry of an interim order, substantially in the form attached hereto as Exhibit A (the “Interim Order”), and a final order, substantially in the form attached hereto as Exhibit B (the “Final Order”), (a) authorizing, but not directing, the Debtors to pay certain prepetition wages, salaries and other compensation, taxes, withholdings and reimbursable expenses, (b) authorizing, but not directing, the Debtors to pay and honor obligations relating to medical and other benefits programs and (c) authorizing, but not directing, the Debtors to continue their employee benefit programs on a postpetition basis. In support of this Motion, the Debtors respectfully state as follows:²

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 105(a), 363(b)(1), 363(c)(1), 507(a)(4), 507(a)(5), 541(b) and 1129(a)(9)(B) of the Bankruptcy Code, 11 U.S.C. §§ 101–1532 (the “Bankruptcy Code”) and Rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

² 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 the date hereof (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.

Debtors' Workforce and Wage and Benefit Obligations

10. As of the Petition Date, the Debtors employ approximately 1,570 employees (collectively, the "Employees"). Approximately 1,300 of the Employees are paid on an hourly basis (the "Hourly Employees"), and the remaining approximately 270 Employees are paid on a salaried basis (the "Salaried Employees"). Notably, the Debtors' workforce is not unionized and does not operate under any collective bargaining agreements. In addition to their Employees, the Debtors supplement their workforce with independent contractors.

11. Although the Debtors have paid their wage, salary and other obligations in accordance with their ordinary compensation schedule prior to the Petition Date, as of the date hereof, certain prepetition obligations for Employees may nevertheless be due and owing. Further, certain Employees may be entitled to unpaid compensation because (a) discrepancies may exist between the amounts paid and the amounts that should have been paid and (b) some payroll or invoice checks issued to Employees prior to the Petition Date may not have been presented for payment or may not have cleared the banking system and, accordingly, have not been honored and paid as of the Petition Date.

I. Wages, Salaries and Compensation.

A. Wage Obligations.

12. The Employees are generally paid bi-weekly, receiving paychecks every other Friday. The Employees were last paid on December 3, 2010, and the aggregate payroll to Employees on that date was approximately \$2.8 million.

13. The Debtors estimate they owe approximately \$2.9 million on account of prepetition wages, salaries and other compensation, excluding reimbursable expenses and vacation pay (the "Unpaid Compensation"). The Debtors do not believe that they owe any one Employee Unpaid Compensation in excess of the \$11,725 cap imposed by section 507(a)(4) of the Bankruptcy Code.

B. Gross Pay Deductions, Governmental Withholdings and Payroll Taxes.

14. The Debtors routinely deduct certain amounts from their Employees' gross pay, including, without limitation: (a) garnishments, child support and similar deductions and (b) other pre-tax and after-tax deductions payable pursuant to the employee benefit plans discussed herein (e.g., contributions relating to health care benefits, insurance premiums, flexible spending programs and 401(k) plans) (collectively, the "Deductions"). On a bi-weekly basis, the

Debtors deduct and remit to appropriate third-party recipients approximately \$120,000 in Deductions from the Salaried Employees' paychecks. On a bi-weekly basis, the Debtors deduct for remittance to appropriate third-party recipients approximately \$225,000 in Deductions from the Hourly Employees' paychecks. The Debtors, however, may not have forwarded certain of the Deductions to the appropriate third-party recipients prior to the Petition Date. Accordingly, the Debtors seek authority to forward prepetition Deductions (and to continue to forward Deductions on a postpetition basis whether or not related to the prepetition period) to the applicable third-party recipients in the ordinary course of business and consistent with past practice. As of the Petition Date, the Debtors estimate they owe approximately \$20,000 on account of prepetition Deductions.

15. In addition to the Deductions, the Debtors are required by law to withhold amounts related to federal, state and local income taxes, as well as Social Security and Medicare, for remittance to the appropriate federal, state or local taxing authority (collectively, the "Withheld Amounts"). The Debtors also are required to pay additional amounts for Social Security, worker's compensation costs for certain states, and federal and state unemployment insurance (collectively, the "Employer Payroll Taxes," and, together with the Withheld Amounts, the "Payroll Taxes"). On a monthly basis, the Debtors remit approximately \$2.0 million in Payroll Taxes. As of the Petition Date, the Debtors estimate they owe approximately \$1.0 million on account of prepetition Payroll Taxes.

C. Vacation Time, Sick Leave and Paid Time Off.

16. The Debtors provide vacation time to all Employees as a paid time-off benefit (the "Vacation Time"). The amount of Vacation Time available to a particular Employee and the rate at which such Vacation Time accrues is generally determined by the Employee's position and the Employee's length of employment. When an Employee elects to take Vacation Time,

that Employee is paid his or her regular hourly or salaried rate. An Employee is only entitled to a cash payment for unused Vacation Time in the event that such Employee is terminated from the Debtors' employment. Therefore, the total amount of Vacation Time accrued is typically much larger than any vacation accrual payments made by the Debtors. As of the Petition Date, the Debtors estimate they owe approximately 1,190 Employees approximately \$4.0 million in accrued Vacation Time. Notably, accrued Vacation Time may be carried over between calendar years up to the maximum accrual for each Employee which is based on such Employee's position and tenure.

17. In addition, all Employees are eligible to accrue sick leave due to illness or injury ("Sick Leave"). The Debtors do not pay out unused Sick Leave accrued at the end of each calendar year, and no payments for accrued sick time are made upon an Employee's termination. Therefore, the Debtors do not ascribe a financial value to Sick Leave, and no amounts are due as of the Petition Date.

18. The Debtors also provide paid time off to Employees for holidays, jury duty and other familial responsibilities ("Paid Time Off"). Paid Time Off does not accrue and consequently the Debtors do not believe they owe any amounts under their Paid Time Off policy as of the Petition Date.

19. The Debtors request that they be authorized to continue to honor their Vacation Time, Sick Leave and Paid Time Off policies in the ordinary course of business and to honor and pay any prepetition amounts related thereto. Moreover, the Debtors anticipate that their Employees will utilize any accrued Vacation Time or Sick Leave in the ordinary course of business, which will not create any material cash flow requirements beyond the Debtors' normal payroll obligations.

D. Independent Contractor Compensation.

20. The Debtors contract with independent contractors in connection with certain services including, diagnostic analysis services, accreditation consulting and nuclear medical stress nursing (the “Independent Contractors”). The use of Independent Contractors fluctuates with business and staffing volumes and is more cost effective for the activities performed than maintaining additional full or part time Employees. As of the Petition Date, the Debtors estimate they owe approximately \$64,000 on account of the services performed by Independent Contractors. The Debtors seek authority to honor such amounts accruing prepetition on account of the Independent Contractors and to continue to honor payments to the Independent Contractors in the ordinary course of business.

E. Payroll Administration.

21. The Debtors use the services of Ultimate Software Group, Inc. (the “Payroll Processor”) to process the direct deposit transfers or administer payroll checks to Employees. The Payroll Processor calculates the payroll and tax obligations for each Employee and the Debtors then transfer these amounts to the Payroll Processor in advance of the end of the applicable pay period. On average, the Debtors pay approximately \$20,250 per month to the Payroll Processor for the payroll related services they provide to the Debtors. As of the Petition Date, the Debtors believe they owe approximately \$22,000 to the Payroll Processor.

F. Incentive Programs.

22. By this Motion, the Debtors seek authority to continue their incentive programs and to honor their obligations to non-insider Employees under the compensation programs described below.³ The Debtors, pursuant to the Final Order, also seek authority to make

³ The Debtors have an Employee stock plan administered by the Debtors’ compensation committee (the “Employee Stock Plan”). There will be no grants in 2010 under the Employee Stock Plan. Additionally, the

payments under the Commission Plans (as defined below). The Debtors are not seeking interim approval of any of the incentive programs described below, or interim authority to make any payments on account of the prepetition amounts owed related thereto. The Debtors are not seeking authority to make payments under the incentive compensation programs to any insiders, as such term is defined in section 101(31) of the Bankruptcy Code. To the extent the Debtors propose to make bonus or incentive payments to any insiders the Debtors will seek separate approval from the Court prior to making any such payments.

23. Historically, the Debtors have maintained three employee bonus plans designed to reward non-insider Employees for their contributions in helping the Debtors reach certain stated financial and other goals (collectively, the “Bonus Plans”), each described below:

- a. Earnings Achievement Bonus Plan. Under the earnings achievement bonus plan (the “Earnings Achievement Bonus Plan”), participating Employees typically earn additional compensation on a quarterly or annual basis based on whether the Debtors meet earnings targets. Under the Earnings Achievement Bonus Plan, Employees are assigned a maximum potential bonus based on such Employees’: (a) relative positions; (b) salaries; and (c) the financial performance of the Debtors’ business as a whole, regional performance and/or individual profit center performance (depending on each Employee’s position) as compared to fiscal year financial projections. Employees only become eligible to receive a certain percentage of their maximum potential bonus when the Debtors’ business, region or individual profit center, as applicable, achieves 90 percent of its financial goal for a given fiscal quarter or year, as applicable. The next annual payment under the Earnings Achievement Bonus Plan is not scheduled to occur until September 2011.
- b. Spot Performance Bonus. The Debtors do not have a regular payment schedule for spot performance bonuses. All employees are eligible to receive such spot performance bonuses, which are awarded upon meritorious action on the part of Employees. The Debtors annually budget approximately \$200,000 for spot performance bonuses. As of the Petition Date, the Debtors estimate they owe approximately \$11,000 to Employees for earned but unpaid spot performance bonuses.

Debtors do not owe any amounts under the Employee Stock Plan. However, out of an abundance of caution, the Debtors request that they be allowed to continue administering the Employee Stock Plan in the ordinary course of business

- c. Valued Employee Plan. The Debtors offer six non-insider Employees the ability to participate in a cash bonus program based on an individual Employee's performance rating (the "Valued Employee Plan"). Bonuses under the Valued Employee Plan are calculated as a percentage of such participants' respective base salary. If all eligible Employees meet their required individual performance ratings, the Debtors believe that the next payment under the Valued Employee Plan will be in the aggregate amount of approximately \$78,000. As of the Petition Date, the Debtors are current on their obligations under the Valued Employee Plan.

24. Of the Debtors' Employees, and excluding spot performance bonuses, approximately 115 Employees are eligible to receive a bonus. None of these approximately 115 Employees are (or are a relative of) a director or officer of the Debtors or a person in control of the Debtors. The next annual bonus payout is scheduled to be paid on or around September 10, 2011, and the next bonus payout under the Valued Employee Plan is scheduled to take place only in connection with and after emergence from chapter 11. As of the Petition Date, the Debtors do not believe they owe any amounts under the Bonus Plans. By this Motion, pursuant to the Final Order, the Debtors seek authority, but not direction, to continue the Bonus Plans and honor their obligations to non-insider Employees under the Bonus Plans. To the extent the Debtors propose to make bonus or incentive payments to any insiders, as such term is defined in section 101(31) of the Bankruptcy Code, the Debtors will seek separate approval from the Court prior to making any such payments.

25. The Debtors also offer several commission plans (the "Commission Plans") to approximately 75 Employees who sell services, enter into contracts and develop business for the Debtors in various geographical regions. Only Employees engaged in sales, mobile contract sales and corporate development are eligible to participate in the Commission Plans. These Employees are eligible for commission payments based upon achieving certain revenue and sales targets. Such payments are paid quarterly, monthly or as needed depending on the eligible Employee's position and the relevant Commission Plan. As of the Petition Date, the Debtors

estimate that approximately \$27,000 is owed to certain Employees under the Commission Plans. As of the Petition Date, the Debtors do not believe that any Employee is owed more than \$11,725 under the Commission Plans. Several of the Debtors' Employees rely on payments received under the Commission Plans for the bulk of their compensation. As such, failure to receive authority on an interim basis to make payments under the Commission Plans is likely to damage Employee morale and undermine the stability of the Debtors' workforce.

G. Director Compensation.

26. The Debtors have multiple directors (collectively, the "Directors") who serve on their respective boards and various committees including the audit and compensation committees. Directors receive quarterly payments for their service as a Director by participating in board and board committee meetings (the "Director Payments"). Typically, Director Payments are less than \$5,000 per Director for any given payment period. The Debtors also reimburse Directors for reasonable out-of-pocket expenses incurred in connection with board meeting attendance (the "Director Expenses," and together with the Director Payments, the "Director Fees"). Director Fees are typically paid on a quarterly basis.

27. As of the Petition Date, the Debtors believe they are current on account of outstanding Director Fees. By this Motion, and pursuant to the Final Order, the Debtors request authority to pay prepetition Director Fees and continue paying Director Fees in the ordinary course of business. The Debtors are not seeking interim approval of any of the foregoing Directors' compensation, or interim authority to make any payments on account of the prepetition amounts owed related thereto.

II. Reimbursable Expenses.

28. Prior to the Petition Date, in the ordinary course of business, the Debtors reimbursed Employees for reasonable and customary expenses incurred on behalf of the Debtors

in the scope of their employment, including those described below (collectively, the “Reimbursable Expenses”).

A. Travel Expenses and Business Development Expenses.

29. The Debtors routinely reimburse expenses of Employees for air travel, meals, parking, automobile mileage and other business-related expenses, incurred in the scope of their employment on behalf of the Debtors (collectively, the “Travel Expenses”). The Debtors also reimburse Employees for certain expenses related to nominal marketing and business development initiatives (the “Business Development Expenses” and, together with the Travel Expenses, the “Travel and Business Development Expenses”). Although the Debtors request that reimbursement requests be submitted promptly, not all of the Employees or Directors do so. Thus, the Debtors are unable to provide a detailed listing of unpaid prepetition Travel Expenses at this time because it is likely that Employees will submit requests for expenses incurred prepetition after the Petition Date. Based on historical practice, the Debtors estimate they owe their Employees approximately \$100,000 on account of prepetition Travel and Business Development Expenses.

B. Corporate Card Programs.

30. To efficiently manage expense costs for certain of the Debtors’ Employees, the Debtors maintain national accounts with American Express Corporate Services for business and key employee travel expense purchases (the “Corporate Card Programs”). The Debtors issue credit cards to certain Employees for travel related expenses (“Travel Cards”) and authorize such Employees to charge the Debtors’ national accounts for the purchase of miscellaneous travel expenses, including lodging, meals and transportation. Travel Cards are held by approximately 21 Employees and monthly statements are paid to American Express Corporate Services by the Debtors. Another group of Employees is issued credit cards and authorized to charge the

Debtors' national accounts for the purchase of miscellaneous business expenses ("Purchase Cards"). Purchase Cards are held by approximately eleven Employees and monthly statements are paid by such Employees directly to American Express Corporate Services. The Debtors subsequently reimburse Employees for Purchase Card expenses. As of the Petition Date, the Debtors estimate they owe approximately \$46,000 under the Corporate Card Programs. To avoid any additional burden on Employees who, in the absence of the Corporate Card Programs, would be liable to pay such business expenses themselves, the Debtors request authority to pay any prepetition amounts owed under the Corporate Card Programs and to continue the Corporate Card Programs in the ordinary course of business.

C. Fuel Card Program.

31. In order to efficiently manage fuel costs for the Debtors' Employees, the Debtors maintain national accounts with Comdata, GE Fleet Services, Penske Truck Leasing Co., L.P. and Wright Express Fleet Services for fuel purchases (the "Fuel Card Program"). Certain Employees are authorized to charge the national accounts for the purchase of fuel. Suppliers of fuel invoice the Debtors for fuel purchases in arrears in accordance with relevant terms. As of the Petition Date, the Debtors estimate they owe approximately \$100,000 on account of prepetition Fuel Card Program expenses. To avoid any additional burden on Employees who, in the absence of the Fuel Card Program, would be liable to pay such fuel costs themselves, the Debtors request authority to pay prepetition amounts owed under the Fuel Card Program and to continue the Fuel Card Program in the ordinary course of business.

32. The Reimbursable Expenses were incurred as business expenses on the Debtors' behalf and with the understanding that they would be reimbursed. Accordingly, to avoid harming Employees who incurred the Reimbursable Expenses, and who may become personally liable for such expenses reasonably incurred at the Debtors' direction, the Debtors request

authority, to be exercised in their sole discretion, to (a) continue reimbursing the Reimbursable Expenses in accordance with prepetition practices and honor any prepetition obligations related thereto, (b) modify their prepetition policies relating thereto as they deem appropriate and (c) pay all Reimbursable Expenses to Employees or applicable credit card companies that (i) accrued prepetition and (ii) accrue postpetition but relate to the prepetition period.

III. Employee Benefit Plans.

33. In the ordinary course of business, the Debtors maintain various employee benefit plans and policies, including, without limitation, health care, dental and vision plans, flexible spending accounts, a health advocate program, workers compensation benefits, premiums under the Marsh Plan, payments under the Self-Funded WC Policy, personal time off, flexible spending accounts, the 401(k) plan, life insurance coverage, accidental death and dismemberment insurance, supplemental life insurance coverage, short-term and long-term disability insurance and all forms of employee assistance benefits (collectively, the “Employee Benefits”).⁴

A. Insight Health Services Corp. Medical, Prescription Drug, Dental and Vision Plans.

34. Full time Employees are eligible to receive medical, dental and vision insurance coverage (collectively, the “Health Benefits”).⁵ Employees pay a portion of their benefits coverage through pre-tax contributions from their paychecks based on the applicable programs and benefits elections.

35. The Debtors’ medical, dental and prescription drug programs are self-insured and require the Debtors to pay for all costs arising under such programs, aside from Employee

⁴ The Debtors’ Employee Benefits are available to Employees only, subject to any eligibility requirements described herein. Independent Contractors do not participate in the Debtors’ Employee Benefits, except in certain cases where former Employees are retained as Independent Contractors.

⁵ Employees working full time are eligible for Health Benefits 30 days from the beginning of their employment, on the first day of the following month.

contribution deductions, including claims payments and associated administrative costs. During the past twelve months, the Debtors paid approximately \$8.0 million in Employee claims under the medical, dental and prescription drug programs and approximately \$2.4 million in total administrative costs and fees. The Debtors estimate that there are accrued and unpaid medical, dental and prescription claims as of the Petition Date totaling \$2.3 million.

36. The Debtors utilize a third-party company, Aetna Life Insurance Company (“Aetna”), to manage and administer their Health Benefits program. Aetna also provides consultation and outsourcing services to the Debtors, as well as coordinates the administration of various claims providers for the Debtors. The Debtors pay Aetna approximately \$2,400 per employee per year for these services. The Debtors estimate that they are current on obligations owed to Aetna on account of services rendered prior to the Petition Date.

37. The Debtors’ self-funded medical plan is administered by Aetna (the “Aetna Medical Plan”). Approximately 830 Employees participate in the Aetna Medical Plan, with a range of options and varying benefits depending upon the Employee’s elections, including 792 employees who elected to enroll in the dental portion of the Aetna Medical Plan. The Debtors paid approximately \$2.4 million in the past 12 months under the Aetna Medical Plan (including medical, prescription, dental and gap insurance) in fees for administering the services provided to Employees. In addition, the Aetna Medical Plan includes an individual stop-loss policy, administered by Aetna, for claims in excess of \$150,000. The Debtors estimate they are current on their obligations to Aetna on account of administration services rendered under the Aetna Medical Plan in the prepetition period. The Debtors request authority to pay prepetition amounts owed under the Aetna Medical Plan and to continue making payments in the ordinary course of business.

38. As of January 1, 2011, the Debtors will transition administration of their medical and dental plans from Aetna to Anthem Blue Cross and Blue Shield (“Anthem”). The Debtors anticipate that Anthem will provide substantially similar services on more favorable terms and conditions for the Debtors. The Debtors estimate that as of the Petition Date, they do not owe Anthem any amounts for administrative fees and expenses. The Debtors request authority to pay Anthem in the ordinary course of business.

39. The Debtors’ vision plan is administered by Vision Services Plan (the “VSP Plan”). Approximately 830 Employees participate in the VSP Plan, with a range of options and varying benefits depending upon the Employee’s elections. The Debtors incur costs of approximately \$5,000 per month in connection with administration of the VSP Plan. As of the Petition Date, the Debtors believe they owe approximately \$7,000 for payment obligations under the VSP Plan.

40. The Debtors’ Health Benefit program also offers Employees the ability to contribute up to \$5,000 each year (pre-tax) for dependent care and \$3,000 each year (pre-tax) for medical, dental and vision care costs not covered by insurance to flexible spending accounts to pay for eligible out-of-pocket health care and dependent care costs and expenses (the “Flexible Spending Accounts”). Aetna currently administers the Flexible Spending Accounts. The Debtors pay approximately \$600 per month to Aetna for its account administration services. Contemporaneously with the Debtors’ transition from Aetna to Anthem for their medical and dental plan administration, Aetna will also cease to serve as administrator for the Flexible Spending Accounts. Anthem does not offer administrative services for the Flexible Spending Accounts. Consequently, the Debtors are in the process of establishing a relationship with Discovery Benefits Inc. (“Discovery Benefits”) to serve as a third-party administrator for the

Flexible Spending Accounts. The Debtors expect that Discovery Benefits will provide substantially similar services on more favorable terms and conditions for the Debtors. As of the Petition Date, the Debtors estimate that they are current on account of fees for administering the services provided to Employees under the Flexible Spending Accounts. The Debtors request authority to both continue offering the Flexible Spending Accounts in the ordinary course of business and to transition administrators from Aetna to Discovery Benefits.

B. Health Advocate Program.

41. The Debtors maintain a health advocate program (the “Health Advocate Program”), whereby counselors are available to assist Employees in making difficult or important health care decisions. All Employees are entitled to use the Health Advocate Program services, and the Debtors pay approximately \$26,000 a year for operational expenses thereunder. The Debtors estimate that as of the Petition Date, they owe approximately \$4,000 under the Health Advocate Program. The Debtors’ Employees rely on the Health Advocate Program to better understand and make use of their Health Benefits. As such, the Debtors request that the Court allow the Debtors to pay any prepetition amounts owed and approve continuing payments under the Health Advocate Program, so that the Debtors may continue to provide this valuable service to their Employees.

C. Workers Compensation.

42. The Debtors provide workers compensation insurance for their Employees in each state in which they operate (the “Workers Compensation Programs”). The Debtors’ Workers Compensation Programs, for all states except Ohio, are administered through Marsh Risk & Insurance Services (the “Marsh Plan”). The Debtors are self-insured in Ohio, and are a non-subscriber with a high-deductible employers’ indemnity insurance policy.

43. The Marsh Plan was adopted in December 2007, and covers 100 percent of the payment on any valid workers compensation claims arising in the years the plan is in place, provided, that the Debtors stay current on their annual Marsh Plan premiums. In the past 12 months, the Debtors paid \$750,000 in Marsh Plan premiums, including related taxes and fees. The Debtors renewed the Marsh Plan on December 5, 2010, requiring the Debtors to pay a down payment of approximately \$216,000. As of the Petition Date, the Debtors owe approximately \$216,000 for the renewed Marsh Plan down payment. The Debtors seek authority to continue the Marsh Plan, renew or replace the Marsh Plan as necessary and pay related premiums and prepetition amounts during these chapter 11 cases, and in the ordinary course of business.

44. Additionally, the Debtors previously self-funded a workers compensation policy which was backed by a letter of credit of approximately \$875,000, with United States Fire Insurance Company as the beneficiary (the “Self-Funded WC Policy”). While the Debtors’ Self-Funded WC Policy is no longer active, the Debtors are responsible for outstanding claims made under the Self-Funded WC Policy. For the 12 month period ended June 30, 2010, the Debtors paid an aggregate amount of approximately \$280,000 for claims made under the Self-Funded WC Policy. As of the Petition Date, the Debtors’ records include an actuarial accrual of approximately \$465,000 on account of estimated prepetition obligations, including payments related to workers compensation claims and claims handling costs. While only \$53,000 is likely to come due under the Self-Funded WC Policy during the pendency of these chapter 11 cases, it is impossible for the Debtors to predict all the possible scenarios that might occur regarding claims and the length of these chapter 11 cases, and thus the Debtors are seeking authority to pay \$465,000 under the Self-Funded WC Policy as such payments come due.⁶

⁶ The Debtors reserve the right to ask the Court to raise the amount that can be paid out under the Self-Funded WC Policy if necessary.

45. Certain benefits under the Workers Compensation Programs may have been incurred but have yet to be reported and certain other claims may have been filed, but have yet to be resolved. For the claims administration process to operate in an efficient manner and to ensure that the Debtors comply with applicable state law, the Debtors must continue to assess, determine and adjudicate claims. Accordingly, the Debtors seek authority to (a) continue to maintain the Workers' Compensation Program in the ordinary course of business and (b) pay certain prepetition amounts related thereto, including workers' compensation claims and premiums as such amounts become due in the ordinary course of the Debtors' business.

D. 401(k) Retirement Plan.

46. The Debtors maintain a retirement savings plan for the benefit of all eligible Employees that meet the requirements of section 401(k) of the Internal Revenue Code (the "401(k) Plan").

47. The Debtors withhold approximately \$100,000 bi-weekly from Hourly Employees' paychecks on account of their 401(k) contributions under the 401(k) Plan. In addition, the Debtors withhold approximately \$75,000 from Salaried Employees' paychecks each bi-weekly pay period. As of the Petition Date, the Debtors believe they are current in their obligations relating to 401(k) contributions that have been withheld from participants' paychecks pursuant to the 401(k) Plan. Despite having made matching contributions to Employees' 401(k) plans in prior years, the Debtors discontinued all 401(k) matching contributions in 2008. Consequently, the Debtors have no such outstanding amounts due as of the Petition Date.

E. Life, Accident and Disability Insurance.

1. Life and Accidental Death and Dismemberment Insurance.

48. The Debtors provide life insurance in an amount equal to an Employee's annual base pay for all Employees through California Life and Health Insurance Guaranty Association

Group Insurance (“CIGNA”) (the “Life Insurance Coverage”). Employees can purchase additional Life Insurance Coverage for themselves and their dependents. The Debtors, through CIGNA, also provide accidental death and dismemberment (“AD&D”) coverage for employees. On average, the Life Insurance Coverage costs to the Debtors totals approximately \$5,500 per month in the aggregate. On average the AD&D coverage costs to the Debtors totals approximately \$1,500 per month in the aggregate. As of the Petition Date, the Debtors estimate that they owe approximately \$8,000 on account of prepetition obligations related to Life Insurance Coverage and AD&D coverage.

49. The Debtors provide Employees the option to purchase supplementary voluntary life insurance coverage (the “Supplemental Life Insurance Coverage”). Employees purchasing Supplemental Life Insurance Coverage pay 100 percent of premiums for policies administered by CIGNA. Premiums are deducted from applicable Employee paychecks by the Debtors, who then forward premiums to CIGNA. The Debtors estimate total monthly costs associated with Supplemental Life Insurance Coverage are approximately \$11,000. As of the Petition Date, the Debtors believe they owe approximately \$11,000 to CIGNA on behalf of applicable Employees for Supplemental Life Insurance Coverage premiums.

2. Disability Benefits.

50. The Debtors provide Employees with short-term disability benefits (the “Short-Term Disability Benefits”) through CIGNA. This coverage generally provides coverage for 60 percent or 40 percent (depending on the class of Employee) of the Employee’s base pay up to a maximum of \$1,250 per week for up to 25 weeks. The Employees are eligible to purchase Short-Term Disability Benefits at their own cost through voluntary paycheck deductions. In the past 12 month, the Debtors deducted approximately, \$300,000 from Employee wages for Short-Term Disability Benefits. As of the Petition Date, the Debtors

estimate they have deducted and are responsible for forwarding approximately \$26,000 to CIGNA. The Debtors seek authority to continue providing the Short-Term Disability Benefits in the ordinary course of business and forward any applicable prepetition amounts to CIGNA related to the Short-Term Disability Benefits.

51. The Debtors provide long-term disability benefits (the “Long-Term Disability Benefits”) to Employees which are administered by CIGNA. The Long-Term Disability Benefits cover the lesser of 60 percent of an Employee’s monthly earnings or \$10,000 a month. The coverage provided by the Long-Term Disability Benefits costs approximately \$18,000 a month. As of the Petition Date, the Debtors estimate that they owe approximately \$21,000 in obligations incurred for Employees that are covered by the Long-Term Disability Benefits. The Debtors seek authority to continue providing the Long-Term Disability Benefits and to honor any prepetition obligations that are related thereto.

IV. Employee Assistance Benefits

A. Employee Assistance Program.

52. The Debtors also make professional counseling services available to eligible Employees and their dependents through an employee assistance program administered by CIGNA (the “Employee Assistance Program”). The Debtors do not generally pay any money to maintain the Employee Assistance Program, and do not believe they have accrued any payment obligations as of the Petition Date. The Debtors, out of an abundance of caution request that they be allowed to continue to maintain the Employee Assistance Program in the ordinary course of business.

B. Licensure and Educational Programs.

53. In order to ensure that Employees stay current on the latest industry and practice knowledge and skills, the Debtors provide a wide array of licensure and educational programs

(the “Licensure and Educational Programs”). The Debtors believe that the implementation of the Licensure and Educational Programs encourages and facilitates Employees in providing the Debtors’ customers with the best service possible. Over the past 12 months, the Debtors paid approximately \$140,000 under the Licensure and Educational Programs. As of the Petition Date, the Debtors estimate that they owe approximately \$20,000 on account of Licensure and Educational Programs obligations. The Debtors request authority to pay any prepetition amounts owed under the Licensure and Educational Programs and to continue the Licensure and Educational Programs in the ordinary course of business.

- a. Education Assistance Program. The Debtors maintain an employee professional development program to provide financial assistance to certain Employees who choose to pursue additional education that increases their productivity as Employees (the “Education Assistance Program”). Employees are eligible to receive 50 percent of the cost of tuition, registration and books up to a maximum of \$1,200 per year, for pre-approved courses where a final grade of “C” or better is earned. The Debtors request authority to pay any prepetition amounts owed under the Education Assistance Program and to continue the Education Assistance Program in the ordinary course of business.
- b. License Reimbursement Program. In the ordinary course of business, the Debtors assist in the renewal of technical licenses and certifications mandatory for certain Employees’ employment (the “License Reimbursement Program”). Maintaining the licensure and certification of Employees is critical to the Debtors’ business. As such, the Debtors request authority to pay any prepetition amounts owed under the License Reimbursement Program and to continue making payments under the License Reimbursement Program in the ordinary course of business.
- c. ASRT Membership Plan. For certain eligible Employees, the Debtors will reimburse annual membership fees with the American Society of Radiologic Technologists (the “ASRT Membership Plan”). The ASRT Membership Plan helps the Debtors’ Employees stay current on the current state of practice, and provide the best possible care to the Debtors’ customers. The Debtors seek authority to pay any prepetition amounts owed under the ASRT Membership Plan and to continue the ASRT Membership Plan in the ordinary course of business.
- d. Seminar Reimbursement Plan. The Debtors encourage Employees to attend pre-approved educational seminars (the “Seminar Reimbursement Plan”). The Debtors reimburse participating Employees for the cost of seminar tuition, plus related travel, lodging and meal expenses. The Debtors seek authority to pay any

prepetition amounts owed under the Seminar Reimbursement Plan and to continue the Seminar Reimbursement Plan in the ordinary course of business.

C. Employee Relocation Program.

54. From time to time, to maximize the effectiveness of their work-force, the Debtors request that Employees relocate from their current work location to address the Debtors' needs at different locations (the "Relocation Program"). Certain costs associated with the Relocation Program are reimbursed by the Debtors in the ordinary course of business, including moving expenses, temporary storage expenses, temporary housing expenses, expenses related to home sales, rental cars and general relocation assistance. The Debtors do not have a preferred relocation vendor, but do generally require relocating Employees to seek out three bids for relocation services. During the 12 month period ended October 31, 2010, the Debtors paid approximately \$6,000 on account of such relocation services. As of the Petition Date, the Debtors estimate that they do not owe any amounts under the Relocation Program. The Debtors request authority to continue the Relocation Program in the ordinary course of business.

D. Sales Force Training Programs.

55. In order to maximize the effectiveness and productivity of their sales force, the Debtors internally develop, maintain and administer online sales training (the "Sales Force Training Program"). During the past 12 months, the Debtors paid approximately \$100,000 for the Sales Force Training Program. The Debtors are not aware of any outstanding prepetition amounts due under the Sales Force Training Program. Out of an abundance of caution, the Debtors request authority to continue the Sales Force Training Program in the ordinary course of business.

E. Automobile Expense Program.

56. The Debtors operate over 60 diagnostic imaging centers and over 100 mobile imaging centers in more than 30 states. These mobile centers are moved to various locations based upon projected need and demand. In connection with these operations, mobile centers are moved and certain of the Debtors' Employees travel with the centers to ensure that they are transported safely and properly installed at each new location. In addition, the Debtors' sales representatives also travel throughout their respective sales regions to obtain new business opportunities for the Debtors.

57. To carry out the tasks that properly maintain the Debtors' network of diagnostic imaging centers, the Debtors provide certain Employees with company leased vehicles or monthly or bi-weekly automobile stipends or expense reimbursements (collectively, the "Automobile Expense Program"). Approximately 480 Employees participate in the Automobile Expense Program. Additionally, on average, each eligible Employee receives less than \$300 per pay period under the Automobile Expense Program. The Debtors incur aggregate obligations of approximately \$70,000 under the Automobile Expense Program for each bi-weekly pay period. The Debtors believe they owe approximately \$70,000 for obligations incurred through the Automobile Expense Program as of the Petition Date. The Debtors request authority to pay prepetition amounts owed and to continue providing the Automobile Expense Program in the ordinary course of business.

V. Severance Payments.

58. All Employees not subject to individual employment agreements are eligible to participate in the Debtors' severance program (the "Severance Program"). For Salaried Employees, the severance benefit is two weeks of pay for each complete year of service with a one week minimum and 26 week maximum. For Hourly Employees the severance benefit is one

week of pay for each complete year of service with a one week minimum and 26 week maximum. Employees at the vice president, director or manager level receive a “leadership adder,” entitling such Employees to additional severance benefits. Specifically, vice presidents are entitled to an additional six weeks of severance, directors are entitled to an additional four weeks of severance, and managers are entitled to an additional two weeks of severance. Payment of severance benefits is contingent on execution of a signed release. The Debtors paid approximately \$770,000 in severance payments during the past 12 months ended November 5, 2010. As of the Petition Date the Debtors estimate that they owe approximately \$30,000 in severance payments. As of the Petition Date, the Debtors do not believe that any Employee is owed more than \$11,725 under the Severance Program.

59. Severance payments are made in connection with bi-weekly payroll periods. Honoring obligations pursuant to the Severance Plan is critical for maintain employee morale and stabilizing the Employee workforce as the Debtors navigate through the reorganization process. By granting the relief requested herein, employees are assured that they will have the same benefits available inside bankruptcy that they had prior to the Petition Date.

60. Pursuant to the Final Order, the Debtors seek authority to continue the Severance Plan described herein in the ordinary course of business and to make any and all payments to Employees on account of such programs. The Debtors are not seeking interim relief on account of the Severance Plan. Further, payments to any insider will be capped in accordance with the limitations imposed by section 503(c)(2) of the Bankruptcy Code regardless of the insider’s duration of service with the Debtors.

VI. Indemnification of Directors and Officers.

61. Pursuant to the Debtors’ bylaws, the Debtors are required to indemnify, and advance expenses incurred by, Directors and officers who are made a party to or are threatened

to be made a party to, certain actions, investigations and proceedings in connection with their employment by or service to the Debtors, provided, however, that (a) the Director or officer acted in good faith and in a manner reasonably believed to be lawful and in the best interests of the Debtors and (b) the Director or officer agrees to reimburse the Debtors should it be determined that he or she is not entitled to be indemnified pursuant to the bylaws or applicable law (the “Indemnification Obligations”).

62. By this Motion, pursuant to the Final Order, the Debtors seek authority, but not direction, to advance expenses as needed to defend against any litigation related to current and former Directors’ and officers’ prepetition or postpetition conduct. The Debtors believe that any claims against their current and former Directors and officers relate to his or her actions undertaken in good faith and on behalf of the Debtors in a manner reasonably believed to be lawful and in the best interests of the Debtors. Moreover, in the event that it is determined that these Directors and officers are not eligible for indemnification, such Directors and officers have agreed to reimburse the Debtors.

63. The Debtors are seeking authorization to continue to honor Indemnification Obligations postpetition with respect to current and former Directors and officers to the extent such obligations are not otherwise reimbursable by third parties. The Debtors are not seeking interim relief on account of Indemnification Obligations. Instead, they are seeking authority to honor the Indemnification Obligations pursuant to the Final Order.

Relief Requested

64. By this Motion, the Debtors seek entry of interim and final orders granting them authority to pay prepetition claims, honor obligations, and to continue programs, in the ordinary course of business and consistent with past practice, relating to Unpaid Compensation, Deductions and Payroll Taxes, Vacation Time, Sick Leave, Paid Time Off, payments to

Independent Contractors, the Payroll Processor, the Employee Stock Plan, the Bonus Plans, the Commission Plans, the Director Fees, Reimbursable Expenses, Travel and Business Development Expenses, the Corporate Card Programs, the Fuel Card Program, the Employee Benefits, Health Benefits, Flexible Spending Accounts, the Health Advocate Program, the Workers Compensation Programs including the self-insured Ohio policy, premiums under the Marsh Plan, payments under the Self-Funded WC Policy, the 401(k) Plan, Life Insurance Coverage, AD&D coverage, Supplemental Life Insurance Coverage, Short-Term Disability Benefits, Long-Term Disability Benefits, the Employee Assistance Program, the Licensure and Educational Programs, the Relocation Program, the Sales Force Training Program, the Automobile Expense Program, the Severance Program, the Indemnification Obligations and all other employee benefits or programs provided in the ordinary course of business (collectively, the “Employee Obligations”).

65. Additionally, to the extent any of the Debtors’ Employees are asserting claims under the Workers Compensation Programs, the Debtors request that the Court modify the automatic stay in the Debtor’s discretion, under section 362 of the Bankruptcy Code (the “Automatic Stay”) to permit these Employees to proceed with their claims under the Workers Compensation Programs. This modification of the Automatic Stay pertains solely to claims under the Workers Compensation Programs. To effectuate the aforementioned modification of the Automatic Stay, the Debtors request that the Court waive the stay of a judgment under Bankruptcy Rule 7062 and the requirements under Bankruptcy Rule 9014 relating to contested matters, solely with respect to claims under the Workers Compensation Programs.

66. By this Motion, the Debtors also request that the Court schedule a final hearing within approximately 25 days of the Petition Date to consider approval of the Motion on a final basis.

Basis for Relief

67. Sections 507(a)(4) and 507(a)(5) of the Bankruptcy Code entitle the majority of Unpaid Compensation and other Employee related obligations to priority treatment. To confirm a chapter 11 plan, the Debtors must pay priority claims in full. See 11 U.S.C. § 1129(a)(9)(b) (requiring payment of certain allowed unsecured claims for (a) wages, salaries or commissions, including vacation, severance and sick leave pay earned by an individual, and (b) contributions to an employee benefit plan). Thus, granting the relief sought herein affects only the timing of payments to Employees, and does not negatively affect recoveries for general unsecured creditors. Indeed, the Debtors submit that payment of Employee claims at this time enhances value for the benefit of all interested parties.

68. Additionally, as part of the relief requested herein, the Debtors seek authority to pay to the appropriate entities the Deductions and the Payroll Taxes. These amounts principally represent Employee earnings that governments, Employees and judicial authorities have designated for deduction from Employees' paychecks. Indeed, certain Deductions like contributions to the Employee Benefits programs, child support and alimony payments are not the Debtors' property, but rather, have been withheld from Employees' paychecks on another party's behalf. See 11 U.S.C. § 541(b). The Debtors and their officers are required by federal or state laws to make certain tax payments that have been withheld from their Employees' paychecks. 26 U.S.C. §§ 6672 and 7501(a); see also Begier v. Internal Revenue Serv., 496 U.S. 53, 59 (1990) (withheld FICA taxes are not property of the estate); City of Farrell v. Sharon Steel Corp., 41 F.3d 92, 95-97 (3d Cir. 1994) (state law requiring debtor to withhold city income tax

from its employees' wages created trust relationship between debtor and city for payment of withheld income taxes); In re DuCharmes & Co., 852 F.2d 194, 196 (6th Cir. 1988) (noting individual officers of a company may be held personally liable for failure to pay trust fund taxes). Further, because the Deductions and Payroll Taxes are not property of the Debtors' estates, these amounts are not subject to the normal bankruptcy prohibitions against payment. See In re Dameron, 155 F.3d 718, 721 (4th Cir. 1998). The Debtors therefore request that the Court confirm that such trust fund withholding is not property of the Debtors' estates and that the Debtors may transmit the Payroll Taxes to the proper parties in the ordinary course of business.

69. The Court may also grant the relief requested herein pursuant to section 363 of the Bankruptcy Code. Section 363 of the Bankruptcy Code provides that “[t]he [debtor], after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate.” 11 U.S.C. § 363(b)(1). Under this section, a court may authorize a debtor to pay certain prepetition claims. See In re Ionosphere Clubs, Inc., 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989) (discussing prior order authorizing payment of prepetition wage claims pursuant to section 363(b); relief appropriate where payment was needed to “preserve and protect its business and ultimately reorganize, retain its currently working employees and maintain positive employee morale.”). To do so, “the debtor must articulate some business justification, other than the mere appeasement of major creditors.” Id.

70. Paying prepetition wages, Employee Benefits and similar items will benefit the estates and their creditors by allowing the Debtors' business operations to continue without interruption. Indeed, the Debtors believe that without the requested relief, their Employees may seek alternative opportunities, perhaps with the Debtors' competitors. Such a development would deplete the Debtors' workforce, hindering the Debtors' ability to meet their customer

obligations and case milestones set forth in the chapter 11 plan term sheet and, likely, diminishing stakeholder confidence in the Debtors' ability to successfully reorganize. The loss of valuable Employees and the resulting need to recruit new personnel to replenish the Debtors' workforce would be distracting and counterproductive at this critical time, during which the Debtors are stabilizing operations and restructuring in chapter 11. Further, if the Debtors lose valuable Employees, they will incur recruiting expenses in locating replacements. Accordingly, there can be no doubt that the Debtors must do their utmost to retain their workforce by, among other things, continuing to honor all wage, benefit and related obligations, including any of the Employee Obligations that accrued prepetition.

71. The Court may also rely on its general equitable powers to grant the relief requested in this Motion as codified in section 105(a) of the Bankruptcy Code. Section 105 of the Bankruptcy Code empowers the Court to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code]." 11 U.S.C. § 105(a). A bankruptcy court's use of its equitable powers to "authorize the payment of pre-petition debt when such payment is needed to facilitate the rehabilitation of the debtor is not a novel concept." Ionosphere Clubs, 98 B.R. at 175-176 (citing Miltenberger v. Logansport, C. & S.W. R.Co., 106 U.S. 286 (1882)). Section 105(a) of the Bankruptcy Code authorizes a court to "permit pre-plan payment of a pre-petition obligation when essential to the continued operation of the debtor." In re NVR L.P., 147 B.R. 126, 127 (Bankr. E.D. Va. 1992); see also In re Just for Feet, Inc., 242 B.R. 821, 825 (D. Del. 1999).

72. Application of section 105(a) of the Bankruptcy Code in the context of this Motion is also appropriate because the relief requested herein is consistent with the rehabilitative policy of chapter 11 of the Bankruptcy Code. A debtor in possession is a fiduciary with a duty to

protect and preserve the estates, including the value of the business as a going concern. In re CoServ, L.L.C., 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002) (“There are occasions when this [fiduciary] duty can only be fulfilled by the preplan satisfaction of a prepetition claim.”). Granting the relief requested in this Motion will enhance the likelihood of the Debtors’ successful rehabilitation, maximize the value of the estates’ assets and thus benefit the estates’ creditors.

73. The Debtors seek authority to honor their Employee Obligations to ensure the continued operation of the Debtors’ businesses and to maintain the morale of their Employees, many of whom would suffer extreme personal hardship and financial difficulty if they are not paid. In addition, the incentive programs and the Employee Benefits programs are important parts of each Employee’s total compensation. The Debtors estimate that the aggregate cost of providing the incentive programs and the Employee Benefit Programs pales in comparison to the value generated by the Debtors’ workforce. Moreover, as with non-payment of wages or reimbursable expenses, any indication that the incentive programs or Employee Benefits programs may disappear or may not be honored will prove detrimental to the Debtors’ ability to successfully reorganize.

74. Similar relief has been provided in other chapter 11 cases in this jurisdiction. See, e.g., Ionosphere Clubs, 98 B.R. at 177 (discussing prior order authorizing payment of prepetition wages, salaries, medical benefits and business expense claims); In re Chateaugay Corp., 80 B.R. 279, 287 (S.D.N.Y. 1987) (affirming a bankruptcy court order authorizing the debtor to pay pre-bankruptcy wages, salaries, employee benefits and reimbursements, and workers’ compensation claims and premiums); In re Innkeepers USA Trust, Case No. 10-13800 (SCC) (Bankr. S.D.N.Y. Aug. 12, 2010); In re NR Liquidation III Co. (f/k/a Neff Corp.), Case

No. 10-12610 (SCC) (Bankr. S.D.N.Y. June 9, 2010); In re Mesa Air Group, Inc., Case No. 10-10018 (MG) (Bankr. S.D.N.Y. Feb. 23, 2010); In re Citadel Broad. Corp., Case No. 09-17442 (BRL) (Bankr. S.D.N.Y. Feb. 3, 2010); In re CIT Group, Inc., Case No. 09-16565 (ALG) (Bankr. S.D.N.Y. Nov. 23, 2009); In re The Reader's Digest Ass'n, Case No. 09-23529 (RDD) (Bankr. S.D.N.Y. Sept. 17, 2009).

The Requirements of Bankruptcy Rule 6003 Are Satisfied

75. Under Bankruptcy Rule 6003, the Court may grant the relief requested in this Motion because such relief is necessary to avoid immediate and irreparable harm. Immediate and irreparable harm exists where the absence of relief would impair a debtor's ability to reorganize or threaten the debtor's future as a going concern. See In re Ames Dep't Stores, Inc., 115 B.R. 34, 36 n.2 (Bankr. S.D.N.Y. 1990) (discussing the elements of "immediate and irreparable harm" in relation to Bankruptcy Rule 4001).

76. As discussed above, the Employees are integral to the Debtors' business operations. Failure to satisfy obligations with respect to the Employees in the ordinary course of business during the first 21 days of these chapter 11 cases will jeopardize the loyalty and trust of the Employees. Certain of the Employees may leave and thereby cause serious disruption to the Debtors' business operations during this critical period when the Debtors need the continued support of their Employees to allow for a successful reorganization.

77. Moreover, the vast majority of the Debtors' Employees rely exclusively on their compensation, benefits and reimbursement of their expenses to continue to pay their daily living expenses, and these Employees will be exposed to significant financial difficulties if the Debtors are not permitted to pay and honor their other obligations to the Employees in the ordinary course of business. Accordingly, the Debtors submit that cause exists to support immediate payment of the Employee Obligations under Bankruptcy Rule 6003.

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

78. To implement the foregoing successfully, 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).

Motion Practice

79. This Motion 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 Motion. Accordingly, the Debtors submit that this Motion satisfies Rule 9013-1(a) of the Local Bankruptcy Rules for the Southern District of New York.

Reservation of Rights

80. The Debtors do not at this time seek to assume any executory contracts or obligations, and this Motion should not be deemed to be an assumption or adoption of any employee agreements or policies. Rather, the Debtors merely seek to take steps that they believe to be necessary to keep their existing workforce intact to maximize the value of the bankruptcy estates, pending further decisions relevant to the contemplated reorganization. Also, the Debtors will retain the discretion to not make the payments contemplated by this Motion for particular Employees, and nothing in this Motion shall, in and of itself, confer upon any Employees or other parties an entitlement to administrative priority or other preferences in distribution from the Debtors' estates.

Notice

81. The Debtors have provided notice of this Motion 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

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

[Remainder of Page Intentionally Left Blank]

WHEREFORE, the Debtors respectfully request entry of the Interim Order and Final Order, substantially in the forms attached hereto as Exhibit A and Exhibit B, respectively, (a) authorizing, but not directing, the Debtors to (i) pay certain prepetition amounts and honor certain prepetition obligations for the Employee Obligations and (ii) continue the practices and programs relating to the Employee Obligations on a postpetition basis and (b) granting such other further relief as is just and proper.

New York, New York

Dated: December 10, 2010

/s/ Edward O. Sassower

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

EXHIBIT A
Interim Order

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

In re:)	Chapter 11
INSIGHT HEALTH SERVICES)	Case No. 10-[_____] (____)
HOLDINGS CORP., <u>et al.</u> , ¹)	
)	
Debtors.)	(Joint Administration Requested)

INTERIM ORDER AUTHORIZING, BUT NOT DIRECTING, DEBTORS TO (A) PAY CERTAIN PREPETITION COMPENSATION AND REIMBURSABLE EMPLOYEE EXPENSES, (B) PAY AND HONOR EMPLOYEE MEDICAL AND OTHER BENEFITS AND (C) CONTINUE EMPLOYEE WAGES AND BENEFITS PROGRAMS

Upon the motion (the “Motion”)² of the above-captioned debtors and debtors in possession (collectively, the “Debtors”) for the entry of an interim order (this “Order”) (a) authorizing, but not directing, the Debtors to pay certain prepetition wages, salaries and other compensation, taxes, withholdings and reimbursable expenses, (b) authorizing, but not directing, the Debtors to pay and honor obligations relating to medical and other benefits programs and (c) authorizing, but not directing, the Debtors to continue their employee benefit programs on a postpetition basis and for the Court to consider entry of the Final Order and upon the First Day Declaration; it appearing that the relief requested is in the best interests of the Debtors’ estates,

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.

² Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Motion.

their creditors and other parties in interest; the Court having jurisdiction to consider the Motion and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334; consideration of the Motion and the relief requested therein being a core proceeding pursuant to 28 U.S.C. § 157(b); venue being proper before the Court pursuant to 28 U.S.C. §§ 1408 and 1409; notice of the Motion having been adequate and appropriate under the circumstances; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED that:

1. The Motion is granted as set forth herein on an interim basis.

2. The final hearing (the "Final Hearing") on the Motion shall be held on _____, 2010 at __:__ .m. Eastern Time. Any objections or responses to entry of the final order shall be filed on _____, 2010 at __:__ .m. Eastern Time and served on the following parties: (a) counsel to the Debtors; (b) the Office of the United States Trustee for the Southern District of New York; (c) the entities listed on the Consolidated List of Creditors Holding the 50 Largest Unsecured Claims filed pursuant to Bankruptcy Rule 1007(d); (d) counsel to the agent for the Debtors' prepetition senior lenders and proposed postpetition secured lenders; (e) each trustee for each of the Debtors' notes; (f) counsel to the ad hoc committee of the Debtors' unsecured noteholders; (g) the Internal Revenue Service; (h) the Securities and Exchange Commission; and (i) those persons who have formally appeared and requested service in this proceeding pursuant to Bankruptcy Rule 2002.

3. The Debtors are authorized, but not directed, to honor and pay upon entry of this Order the Employee Obligations, including with respect to the Corporate Card Programs held with American Express Corporate Services, in accordance with the Debtors' stated policies and prepetition practices, including, but not limited to, prepetition Unpaid Compensation to the Employees and the Debtors' Independent Contractors; provided, however, that the Debtors may

not pay any Employee or Independent Contractor more than \$11,725 on account of Unpaid Compensation and Reimbursable Expenses.

4. The Debtors are authorized, but not directed, to continue to allocate and distribute the Deductions and the Payroll Taxes in accordance with the Debtors' stated policies and prepetition practices.

5. The Debtors are authorized, but not directed, to pay payable and prepetition Reimbursable Expenses in accordance with the Debtors' stated policies and prepetition practices.

6. The Debtors are authorized, but not directed, to honor the Employee Benefits programs, make any necessary contributions to such programs and pay any unpaid premium, claim or amount owed as of the Petition Date; provided, however, that the Debtors shall not make any payments with respect to the Bonus Plans, due to severance obligations, Director Payments or Indemnification Obligations until entry of the Final Order.

7. In accordance with this Order and any other order of the Court, the Debtors are authorized, but not directed, to pay and to honor all Employee Obligations and to pay all processing fees associated with, and all costs incident to, payment of the Employee Obligations; provided, however, that that the Debtors shall not make any payments with respect to the Bonus Plans or due to severance obligations until entry of the Final Order.

8. The banks and financial institutions (including the Payroll Processor) with which the Debtors maintain bank accounts or on which checks are drawn or electronic payment requests made in payment of the prepetition obligations approved herein are authorized and directed to continue to service and administer the Debtors' bank accounts without interruption and in the ordinary course and to receive, process, honor and pay any and all such checks, drafts, wires and automatic clearing house transfers issued, whether before or after the Petition Date and

drawn on the Debtors' bank accounts by the respective holders and makers thereof and at the direction of the Debtors, as the case may be.

9. The Debtors are authorized to reissue any check or electronic payment that originally was given in payment of any prepetition amount authorized to be paid under this Order and is not cleared by the applicable bank or other financial institution.

10. To the extent any of the Debtors' Employees are asserting claims under the Workers Compensation Programs, the Court hereby modifies the automatic stay in the Debtor's discretion, under section 362 of the Bankruptcy Code (the "Automatic Stay") to permit these Employees to proceed with their claims under the Workers Compensation Programs. This modification of the Automatic Stay pertains solely to claims under the Workers Compensation Programs. To effectuate the aforementioned modification of the Automatic Stay, the Court hereby waives the stay of a judgment under Bankruptcy Rule 7062 and the requirements under Bankruptcy Rule 9014 relating to contested matters, solely with respect to claims under the Workers Compensation Programs

11. The Debtors are authorized to take all actions necessary to effectuate the relief granted pursuant to this Order in accordance with the Motion.

12. The requirements set forth in Bankruptcy Rule 6003(b) are satisfied by the contents of the Motion or otherwise deemed waived.

13. Notice of the Motion as provided therein shall be deemed good and sufficient notice of such motion and the requirements of Bankruptcy Rule 6004(a) and the local rules are satisfied by such notice.

14. Notwithstanding Bankruptcy Rules 6004(h), 7062, 9014 or otherwise, the terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

15. The Court retains jurisdiction with respect to all matters arising from or related to the implementation of this Order.

New York, New York

Date: _____, 2010

United States Bankruptcy Judge

EXHIBIT B

Final Order

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

In re:)	Chapter 11
)	
INSIGHT HEALTH SERVICES)	Case No. 10-[_____] (____)
HOLDINGS CORP., <u>et al.</u> , ¹)	
)	
Debtors.)	(Joint Administration Requested)

FINAL ORDER AUTHORIZING, BUT NOT DIRECTING, DEBTORS TO (A) PAY CERTAIN PREPETITION COMPENSATION AND REIMBURSABLE EMPLOYEE EXPENSES, (B) PAY AND HONOR EMPLOYEE MEDICAL AND OTHER BENEFITS AND (C) CONTINUE EMPLOYEE WAGES AND BENEFITS PROGRAMS

Upon the motion (the “Motion”)² of the above-captioned debtors and debtors in possession (collectively, the “Debtors”) for the entry of a final order (this “Order”) (a) authorizing, but not directing, the Debtors to pay certain prepetition wages, salaries and other compensation, taxes, withholdings and reimbursable expenses, (b) authorizing, but not directing, the Debtors to pay and honor obligations relating to medical and other benefits programs and (c) authorizing, but not directing, the Debtors to continue their employee benefit programs on a postpetition basis and upon the First Day Declaration; it appearing that the relief requested is in the best interests of the Debtors’ estates, their creditors and other parties in interest; the Court

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.

² Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Motion.

having jurisdiction to consider the Motion and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334; consideration of the Motion and the relief requested therein being a core proceeding pursuant to 28 U.S.C. § 157(b); venue being proper before the Court pursuant to 28 U.S.C. §§ 1408 and 1409; notice of the Motion having been adequate and appropriate under the circumstances; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED that:

1. The Motion is granted as set forth herein on a final basis.
2. The Debtors are authorized, but not directed, to honor and pay upon entry of this Order the Employee Obligations, including with respect to the Corporate Card Programs held with American Express Corporate Services, in accordance with the Debtors' stated policies and prepetition practices, including, but not limited to, prepetition Unpaid Compensation to the Employees and the Debtors' Independent Contractors.
3. The Debtors are authorized, but not directed, to continue to allocate and distribute the Deductions and the Payroll Taxes in accordance with the Debtors' stated policies and prepetition practices.
4. The Debtors are authorized, but not directed, to pay payable and prepetition Reimbursable Expenses in accordance with the Debtors' stated policies and prepetition practices.
5. The Debtors are authorized, but not directed, to pay upon entry of this Order the Reimbursable Expenses in accordance with the Debtors' stated policies and prepetition practices.
6. The Debtors are authorized, but not directed, to honor their incentive programs, make any necessary contributions to such programs and pay any unpaid premium, claim or amount owed as of or after the Petition Date; provided, however, that that the Debtors shall not

make any payments to insiders, as defined by section 101(31) of the Bankruptcy Code, with respect to any of the incentive programs without further order of the Court.

7. The Debtors are authorized, but not directed, to honor the Employee Benefits programs, make any necessary contributions to such programs and pay any unpaid premium, claim or amount owed as of or after the Petition Date related thereto.

8. The Debtors are authorized, but not directed, to continue and to honor obligations under and to pay any unpaid amounts owed as of or after the Petition Date related to their severance programs as described in the Motion, provided, however, that any severance payments made by the Debtors to insiders, as defined by section 101(31) of the Bankruptcy Code, shall be subject to the limitations of section 503(c)(2) of the Bankruptcy Code.

9. In accordance with this Order and any other order of the Court, to pay and to honor all Employee Obligations and to pay all processing fees associated with, and all costs incident to, payment of the Employee Obligations.

10. The banks and financial institutions (including the Payroll Processor) with which the Debtors maintain bank accounts or on which checks are drawn or electronic payment requests made in payment of the prepetition obligations approved herein are authorized and directed to continue to service and administer the Debtors' bank accounts without interruption and in the ordinary course and to receive, process, honor and pay any and all such checks, drafts, wires and automatic clearing house transfers issued, whether before or after the Petition Date and drawn on the Debtors' bank accounts by the respective holders and makers thereof and at the direction of the Debtors, as the case may be.

11. The Debtors are authorized to reissue any check or electronic payment that originally was given in payment of any prepetition amount authorized to be paid under this Order and is not cleared by the applicable bank or other financial institution.

12. To the extent any of the Debtors' Employees are asserting claims under the Workers Compensation Programs, the Court hereby modifies the automatic stay in the Debtor's discretion, under section 362 of the Bankruptcy Code (the "Automatic Stay") to permit these Employees to proceed with their claims under the Workers Compensation Programs. This modification of the Automatic Stay pertains solely to claims under the Workers Compensation Programs. To effectuate the aforementioned modification of the Automatic Stay, the Court hereby waives the stay of a judgment under Bankruptcy Rule 7062 and the requirements under Bankruptcy Rule 9014 relating to contested matters, solely with respect to claims under the Workers Compensation Programs.

13. The Debtors are authorized to take all actions necessary to effectuate the relief granted pursuant to this Order in accordance with the Motion.

14. Notice of the Motion as provided therein shall be deemed good and sufficient notice of such motion and the requirements of Bankruptcy Rule 6004(a) and the local rules of the Court are satisfied by such notice.

15. The requirements set forth in Bankruptcy Rule 6003(b) are satisfied by the contents of the Motion or otherwise deemed waived.

16. Notwithstanding Bankruptcy Rules 6004(h), 7062, 9014 or otherwise, the terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

17. The Court retains jurisdiction with respect to all matters arising from or related to the implementation of this Order.

New York, New York

Date: _____, 2010

United States Bankruptcy Judge