

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

In re:

BKY 02-42904

SpectraScience, Inc.,

Chapter 11 Case

Debtor.

RESPONSE TO MOTION TO CONVERT CHAPTER 11 CASE

The Official Committee of Unsecured Creditors (“Committee”) appointed in the bankruptcy case of SpectraScience, Inc. (“Debtor”) submits this response to the Motion by Trustee-In-Possession to Convert Chapter 11 Case (“Motion”).

The hearing on the Motion and this Response will be held on November 5, 2003 at 10:30 a.m. in Courtroom 7 West, United States Courthouse, 300 South Fourth Street, Minneapolis, Minnesota.

Most of the background facts of the case are adequately set forth in the Motion, and the Committee relies on the statement of facts set forth in the Motion and incorporates same as if fully set forth herein. In addition, the Committee provides the facts set forth hereinafter in support of its Response.

Grounds Alleged in Motion

The Motion alleges three grounds for conversion, as more fully described in the Memorandum of Law in support of the Motion.

The first ground alleged is continuing loss to or diminution of the estate and absence of a reasonable likelihood of rehabilitation. In support of the first element of the argument, the Trustee alleges in the Memorandum that the debtor incurred continuing losses after the

bankruptcy petition was filed. The Motion contains no detail of what loss to the estate there has been since the case was filed and what losses will continue to be incurred by the estate if this case continues. The Committee has requested (on October 28, 2003) an informal accounting from the Trustee and suspects that the Trustee will provide same at his earliest opportunity. In support of the second element of the argument, the Trustee alleges that GDBA, the potential investor to fund a reorganization of the Debtor has withdrawn its commitment to proceed with the anticipated reorganization. The Trustee does not state if there have been any efforts to locate another potential investor to fund reorganization. At about the time that the Trustee filed his motion, the Chairperson of the Committee contacted the Trustee to inform the Trustee of the efforts, of Committee members and others, to locate another investor. Those efforts are more fully described below.

The second ground alleged by the Trustee is inability to effectuate a plan of reorganization. The trustee supports this ground on the basis that GDBA withdrew its commitment to finance a plan, that the Trustee does not have funds to effect a reorganization, and that no other investors have expressed an interest. As noted above, and as more fully described below, the Committee and others are working to form a group of investors to provide the funds needed to effect a reorganization.

The third ground alleged by the Trustee is unreasonable delay by the debtor that is prejudicial to creditors. In support of this ground, the Trustee argues in the Memorandum of Law that the estate will diminish in value to the prejudice of creditors. There is no detail provided of the extent to which the estate will diminish and the nature of the expenses that will cause the estate to diminish. As noted above, the Committee recently requested that information.

Delay in the case was not caused by the debtor, the Trustee or the Committee. Instead, the delay was caused by the withdrawal of the funding commitment.

New Efforts to Reorganize

After being notified of the withdrawal of the commitment to fund the proposed plan of reorganization, the Committee met with Chet Sievert and Tom Charboneau. Mr. Charboneau is a shareholder of the Debtor and is also a broker. Mr. Charboneau informally contacted individuals, (e.g. shareholders of the Debtor) to explore the possibility of forming a group of investors to provide funds for a plan of reorganization. Mr. Charboneau reported to the Committee the results of his efforts. In response, the Committee resolved to attempt to form a plan of reorganization incorporating the financing concepts proposed by Mr. Charboneau. The terms of the proposed financing and the terms of the proposed plan are not fully formulated yet.

The general concept of the proposal is as follows. Funds will be contributed and/or loaned to the Debtor in the approximate amount of \$75,000. This \$75,000 will be added to the funds currently in the estate (\$100,000 after payment to the attorney for the Trustee for the fees applied for in the pending fee application). A plan of reorganization will be formulated to pay allowed administrative expense claim; to pay allowed priority claims, and provide for treatment of general unsecured claims. The general concept contemplates, as a part of the reorganization, an offering to raise funds to market the Debtor's patented system through use of an existing reimbursement code (rather than a new reimbursement code, thereby saving substantial costs).

The Committee has resolved to file a plan of reorganization incorporating this general approach, as may be subsequently revised. The Committee asks the Court to defer conversion of the case until some later date to give the Committee an opportunity to finish its work to arrange for the plan financing and to file a plan of reorganization and disclosure statement.

VERIFICATION

I, John Burton, Chairperson of the Official Committee of Unsecured Creditors, declare under penalty of perjury that the information contained in the foregoing Response is true and correct according to the best of my knowledge, information, and belief.

Dated: October 29, 2003


John Burton

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

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PROOF OF SERVICE

The undersigned states that she is an employee of Kampf & Associates P.A., and in the course of said employment, on the date indicated below, she served the following:

Response to Motion to Convert Chapter 11 Case; and (2) Proof of Service

on the entities named below and/or on the attached service by enclosing true and correct copies of same in an envelope, properly addressed and postage prepaid, and depositing same in the United States mail, unless otherwise noted; and that she certifies the foregoing under penalty of perjury.

United States Trustee
300 South Fourth Street
1015 U.S. Courthouse
Minneapolis, MN 55415
Fax: 612-664-5516

Timothy Moratzka
Mackall, Crouse & Moore, PLC
901 Marquette Ave, Suite 1400
Minneapolis, MN 55402
Fax: 612-305-1414

Dated: October 29, 2003

/e/ Tawney Lesto