

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

In re Graceway Pharmaceuticals, LLC, *et al.*
Debtor

Case No. 11-13036 (PJW)

INITIAL MONTHLY OPERATING REPORT

File report and attachments with Court and submit copy to United States Trustee within 15 days after order for relief.

Certificates of insurance must name United States Trustee as a party to be notified in the event of policy cancellation. Bank accounts and checks must bear the name of the debtor, the case number, and the designation "Debtor in Possession." Examples of acceptable evidence of Debtor in Possession Bank accounts include voided checks, copy of bank deposit agreement/certificate of authority, signature card, and/or corporate checking resolution.

REQUIRED DOCUMENTS	Document Attached	Explanation Attached
12-Month Cash Flow Projection (Form IR-1)	Attached	See (A) Below
Certificates of Insurance	Attached	See (B) Below
Evidence of Debtor in Possession Bank Accounts	N/A	See (C) Below
Retainers Paid (Form IR-2)	Attached	

(A) Since the Debtors contemplate selling substantially all their assets prior to January 27, 2012, the Cash Flow Projection attached reflects the weekly forecast through January 12, 2012 and monthly forecast for the Wind Down period through June 30, 2012

(B) Confidential Insurance Certificates provided to US Trustee Office Only

(C) See Order Under 11 U.S.C. §§ 345, 363, 364, 503(b)(1), 553, 1107, and 1108 and Local Rule 2015-2 (I) Authorizing Continued Use of Existing (A) Bank Accounts, (B) Cash Management System, and (C) Business Forms and Checks; and (II) Waiving Investment and Deposit Requirements of 11 U.S.C. § 345(b)

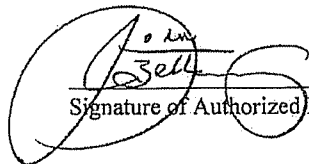
I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the documents attached are true and correct to the best of my knowledge and belief.

Signature of Debtor

Date

Signature of Joint Debtor

Date



Signature of Authorized Individual*

Date 10/14/2011

Printed Name of Authorized Individual
John A.A. Bellamy

Title of Authorized Individual
EVP / General Counsel

*Authorized individual must be an officer, director or shareholder if debtor is a corporation; a partner if debtor is a partnership; a manager or member if debtor is a limited liability company.

DIP Budget

Pre-Sale Approved Budget
(\$ in '000s)

	11	12	13	14	15	16	17	
Week Ending:	12/16/11	12/23/11	12/30/11	1/6/12	1/13/12	1/20/12	1/27/12	Est. Accrued but Unpaid @ Closing (1)
Receipts								Total
Pharma Sales	\$ 1,180	\$ 1,357	\$ 1,474	\$ 1,025	\$ 1,477	\$ 915	\$ 939	\$ 21,992
Royalties & Licensing	-	-	-	-	-	-	-	1,548
Other Receipts	-	-	-	-	-	-	-	-
Total Receipts	1,180	1,357	1,474	1,025	1,477	915	939	23,541
Operating Disbursements								
Rebates (plus Post-Closing CCRP)	321	-	290	107	398	21	331	2,980
Payroll & Benefits	127	682	10	708	29	809	26	8,480
Product, Packaging, Freight	584	1,832	83	77	202	162	76	7,739
R&D, Licensing, & Regulatory	70	70	157	189	73	73	73	1,675
Advertising & Promotion and Sales Expenses	251	201	201	148	489	139	139	4,153
Non-Restructuring Professional Fees	-	-	-	-	-	-	-	-
Ropes & Gray LLP	-	-	-	-	-	-	-	-
Edward's Argeil Palmer & Dodge	246	-	-	-	246	-	-	477
Hogan Lovells US LLP	97	-	-	-	97	-	-	288
Other Non-Restructuring Professionals	33	-	87	-	33	-	87	141
Insurance	-	-	-	-	-	-	-	985
Taxes	58	-	-	-	-	14	-	731
Corporate, Occupancy, Utilities & Other Expenses	35	35	35	88	124	35	35	1,265
Total Operating Disbursements	1,822	2,820	862	1,318	1,691	1,253	767	29,967
Restructuring & Non-Operating Disbursements								
Restructuring Professionals (Retained)	622	-	-	-	1,444	-	-	8,670
CapEx	6	6	6	6	6	6	6	98
Total Restructuring and Non-Op Disbursements	627	6	6	6	1,450	6	6	8,768
Financing Disbursements/Receipts								
Canadian Loan & Interest	-	-	-	-	-	-	-	(6,000)
1st Lien Advisors	-	-	-	469	-	-	-	1,406
1st Lien Interest & Fees	-	-	-	-	-	-	-	974
1st Lien Agent	-	-	3	-	-	-	3	137
Total Financing Disbursements	-	-	3	469	-	-	3	(3,483)
Net Cash Flow	\$ (1,269)	\$ (1,463)	\$ 603	\$ (768)	\$ (1,664)	\$ (343)	\$ 163	\$ (11,711)

Account	11	12	13	14	15	16	17
Equity Investments	\$ 1,180	\$ 1,357	\$ 1,474	\$ 1,025	\$ 1,477	\$ 915	\$ 939
Receivables	622	6	6	6	6	6	6
Prepaid Expenses	33	-	87	-	33	-	87
Other Assets	58	-	-	-	-	14	-
Other Liabilities	35	35	35	88	124	35	35
Total	1,822	2,820	862	1,318	1,691	1,253	767

Note:
(1) Does not include estimated CCR liabilities

Pre-Sale Approved Budget
(\$ in '000s)

Firm / Employees	Oct-11	Nov-11	Dec-11	Jan-12	Success Fee	Total	Estimated Unpaid Amt at Closing
Debtor							
Company Counsel (Latham)	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	-	\$ 4,000	\$ 2,437
Local Counsel (Young Conaway)	150	150	150	150	-	600	366
Claims / Noticing Agent (BMC)	50	50	50	50	-	200	100
Investment Bank (Lazard)	175	175	175	175	2,263	2,863	2,680
Restructuring Consultant (A&M)	379	288	299	295	-	1,261	805
Subtotal	1,764	1,663	1,674	1,670	2,263	9,024	6,389
UCC							
UCC Professionals	67	67	67	67	-	267	162
Non-Restructuring Professionals (Retained)							
Ropes & Gray LLP	-	-	-	-	-	-	-
Edwards Angel Palmer & Dodge	300	300	175	175	-	950	477
Hogan Lovells US LLP	118	118	118	118	-	473	288
PricewaterhouseCoopers	40	40	40	40	-	160	97
Subtotal	458	458	333	333	-	1,583	862
Trustee Fee	10	10	10	10	-	40	40
Sub-Total	2,288	2,198	2,084	2,080	2,263	10,913	7,453
Other Non-Restructuring Professionals (Non-Retained)							
Other Non-Restructuring Advisors	87	87	87	87	-	346	43
1st Lien							
1st Lien Professionals	450	450	450	450	-	1,800	327
Total	2,825	2,735	2,621	2,617	2,263	13,060	7,824

Wind-Down Approved Budget
(\$ in '000s)

	Feb-12 ⁽¹⁾	Mar-12	Apr-12	May-12	Jun-12	Total
Receipts						
Paragraph 4 Funding Amounts (excl. 1% Holdback Account)	\$ 49,185	\$ -	\$ -	\$ -	\$ -	\$ 49,185
Disbursements						
Lazard Success Fee	2,263	-	-	-	-	2,263
Designated Account, excl Wind Down Expenses	18,255	-	-	-	-	18,255
Wind Down Expenses - Professional Fees Only	1,403	1,403	1,153	903	903	5,766
Wind Down Expenses - Corporate, Employee & Other	799	578	452	400	373	2,603
Wind Down Expenses - PTO / Severance / COBRA	2,616	-	-	-	-	2,616
CCR Account	17,583	-	-	-	-	17,583
Total Disbursements	43,018	1,982	1,606	1,303	1,277	49,185
Net Cash Flow	6,167	(1,982)	(1,606)	(1,303)	(1,277)	-
Beginning Cash Balance	2,680	2,680	2,680	2,680	2,680	2,680
Net Cash Flow	(6,167)	(1,982)	(1,606)	(1,303)	(1,277)	(12,335)
Ending Cash Balance	(3,487)	(4,784)	(4,532)	(5,983)	(7,277)	(27,063)

Note:
(1) Feb 2012 includes Jan 28-31

Certificates of Insurance¹

¹ The confidential Insurance Certificates were provided to the United States Trustee only.

Cash Management Order

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

GRACEWAY PHARMACEUTICALS, LLC,
et al.,¹

Debtors.

Chapter 11

Case No. 11-13036 (MFW)

Joint Administration Pending

Docket Ref. No. 7

**ORDER UNDER 11 U.S.C. §§ 345, 363, 364, 503(b)(1), 553, 1107, AND 1108
AND LOCAL RULE 2015-2 (I) AUTHORIZING CONTINUED USE OF EXISTING
(A) BANK ACCOUNTS, (B) CASH MANAGEMENT SYSTEM, AND (C) BUSINESS
FORMS AND CHECKS; AND (II) WAIVING INVESTMENT AND
DEPOSIT REQUIREMENTS OF 11 U.S.C. § 345(b)**

("Cash Management Order")

Upon consideration of the motion (the "**Motion**")² of the Debtors for entry of an order (the "**Order**") (I) authorizing the Debtors' continued use of their existing (a) bank accounts, (b) business forms and checks, and (c) cash management system; and (II) waiving the investment and deposit requirements of Section 345(b) of the Bankruptcy Code; and it appearing that the relief requested is in the best interests of the Debtors' estates, their creditors, and other parties in interest; and it appearing that this Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334; and it appearing that this Motion is a core proceeding pursuant to 28 U.S.C. § 157; and adequate notice of the Motion and opportunity for objection having been

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Graceway Pharma Holding Corp., a Delaware corporation (9175); Graceway Holdings, LLC, a Delaware limited liability company (2502); Graceway Pharmaceuticals, LLC, a Delaware limited liability company (5385); Chester Valley Holdings, LLC, a Delaware limited liability company (9457); Chester Valley Pharmaceuticals, LLC, a Delaware limited liability company (3713); Graceway Canada Holdings, Inc., a Delaware corporation (6663); and Graceway International, Inc., a Delaware corporation (2399). The mailing address for Graceway Pharmaceuticals, LLC is 340 Martin Luther King Jr. Blvd., Suite 500, Bristol, TN 37620 (Attn: John Bellamy).

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

given; and it appearing that no other notice need be given; and after due deliberation and sufficient cause therefore, it is hereby ORDERED, ADJUDGED, AND DECREED that:

1. The Motion is GRANTED as set forth herein.
2. Subject to the terms and conditions in this Order, the Debtors are authorized to continue to (a) use their Existing Bank Accounts, business forms and checks, and Cash Management System, and (b) the requirements provided in 11 USC § 345(b) are hereby WAIVED as to the Existing Bank Accounts for an interim period of sixty (60) days, without prejudice to the Debtors' rights to seek a further waiver.
3. Subject to the terms and conditions in this Order, the Debtors are authorized to (a) designate, maintain and continue to use, with the same numbers, all of the Existing Bank Accounts and (b) treat the Bank Accounts for all purposes as accounts of the Debtors as debtors-in-possession. Exhibit B to the Motion provides a listing of the Existing Bank Accounts. Notwithstanding the foregoing, the Debtors are authorized, but not required, to close the Chester Valley Account.
4. The banks at which the Bank Accounts are maintained (collectively, the "Banks") are authorized and directed to continue to service and administer the Bank Accounts as accounts of the respective Debtor as a debtor-in-possession without interruption and in the usual and ordinary course, and to receive, process and honor and pay any and all checks, drafts, wires, or automated clearing house transfers ("ACH Transfers") drawn on the Bank Accounts after the Petition Date by the holders or makers thereof, as the case may be. Such Bank Accounts should be renamed "debtor-in-possession" accounts with the Petition Date included in the account title. The Banks are also authorized to waive any applicable requirement to establish separate accounts for cash collateral and/or tax payments.

5. The Banks are authorized and directed to accept and honor all representations from the Debtors as to which checks, drafts, wires, or ACH Transfers should be honored or dishonored consistent with any order(s) of this Court, whether the checks, drafts, wires, or ACH Transfers are dated prior to, on, or subsequent to the Petition Date, and whether or not the Bank believes the payment is or is not authorized by any order(s) of this Court.

6. Except for those checks, drafts, wires, or ACH Transfers that must be honored and paid in order to comply with any order(s) of this Court authorizing payment of certain prepetition claims, no checks, drafts, wires, or ACH Transfers issued on the Existing Bank Accounts prior to the Petition Date but presented for payment after the Petition Date shall be honored or paid.

7. The Debtors are authorized to continue to use their existing checks and other business forms, which checks and business forms shall not be required to include the legend "Debtor-in-Possession" or a "debtor-in-possession case number"; provided further that, with respect to checks or other business forms which the Debtors or their agents print themselves, the Debtors shall begin printing the "Debtor in Possession" legend on such items within ten (10) days of the date of entry of this Order. However, if new checks and business forms are ordered, such checks and business forms shall be required to include the legend "Debtor-in-Possession" and a "debtor-in possession case number." Third-party payroll and benefits administrators and providers are also authorized to prepare and issue checks on behalf of the Debtors, subject to the provisions of this paragraph.

8. Subject to the terms and conditions in this Order, the Debtors may open additional bank accounts and close Existing Bank Account(s) as they may deem necessary and appropriate, and the Banks are authorized to honor the Debtors' requests to open or close, as the case may be,

any such Bank Accounts; provided, however, that the Debtors give notice within fifteen (15) days to the Office of the United States Trustee for the District of Delaware, the First Lien Administrative Agent, and any statutory committees appointed in these chapter 11 cases; provided, further, that the Debtors shall open any such new Bank Account at banks that have executed a Uniform Depository Agreement with the Office of the United States Trustee for the District of Delaware, or at such banks that are willing to immediately execute such an agreement.

9. Subject to the terms and conditions in this Order, any and all bank accounts opened by the Debtors on or after the Petition Date at any Bank shall, for all purposes under this Order, be deemed a Bank Account (as if it had been opened prior to the Petition Date), and any and all Banks at which such bank accounts are opened shall similarly be subject to the rights and obligations of this Order.

10. The Debtors and Wells Fargo are hereby authorized to continue to perform pursuant to the terms of any prepetition agreements that may exist between them, except and to the extent otherwise directed by the terms of this Order. The parties to such agreements shall continue to enjoy the rights and remedies afforded them under such agreements, except to the extent modified by the terms of this Order or by operation of the Bankruptcy Code.

11. For Banks at which the Debtors hold Bank Accounts that are party to a Uniform Depository Agreement with the Office of the United States Trustee for the District of Delaware, within fifteen (15) days of the date of entry of this Order the Debtors shall (a) contact each Bank, (b) provide each of the Debtors' employer identification numbers and (c) identify each of their Bank Accounts held at such Banks as being held by a debtor in possession in a bankruptcy case.

12. For Banks at which the Debtors hold Bank Accounts that are not a party to a Uniform Depository Agreement with the Office of the United States Trustee for the District of

Delaware, the Debtors shall use their good faith reasonable best efforts to cause the Banks to execute a Uniform Depository Agreement in a form prescribed by the U.S. Trustee within 45 days of the date of this Order. The U.S. Trustee's rights to seek further relief from this Court on notice in the event that the aforementioned banks are unwilling to execute a Uniform Depository Agreement in a form prescribed by the U.S. Trustee are fully reserved.

13. Unless expressly permitted pursuant to an order of this Court, all intercompany transfers by any Debtor to any non-debtor affiliate or subsidiary are prohibited.

14. The Debtors shall maintain accurate and detailed records of all transfers, including intercompany transfers, so that all transactions may be readily ascertained, traced, recorded properly and distinguished between prepetition and post-petition transactions.

15. This court finds and determines that the requirements of Bankruptcy Rule 6003 are satisfied and that the relief requested herein is necessary to avoid immediate and irreparable harm.


16. Notwithstanding the provisions of Bankruptcy Rule 6004 and Bankruptcy Rule 6006 or any applicable provisions of the Local Rules, this Order shall not be stayed for fourteen (14) days after the entry hereof, but shall be effective and enforceable immediately upon entry, and the fourteen (14) day stay provided in such rules is hereby expressly waived and shall not apply.

17. Notwithstanding anything to the contrary contained herein, any payment to be made, or authorization contained, hereunder and the opening of any additional bank account in accordance with the terms hereof, shall, in each case, be subject to the requirements imposed on the Debtors under any approved debtor-in-possession financing facility, or any order regarding the use of cash collateral.

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

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

Dated: September 30, 2011
Wilmington, Delaware



Peter J. Walsh
United States Bankruptcy Judge

Retainers Paid (Form IR-2)

In re Graceway Pharmaceuticals, LLC, et al

Case No. 11-13036 (PJW)

Debtors

Reporting Period: Initial Operating Report

SCHEDULE OF RETAINERS PAID TO PROFESSIONALS ¹

(This schedule is to include each Professional paid a retainer)

Payee	Name of Payor	Amount ²	Amount Applied as of Petition Date ³	Balance ³
Latham & Watkins LLP	Graceway Pharmaceuticals, LLC	\$579,099.96	TBD	TBD
Edwards Wildman Palmer LLP	Graceway Pharmaceuticals, LLC	\$300,000.00	TBD	TBD
Alvarez & Marsal North America, LLC	Graceway Pharmaceuticals, LLC	\$270,000.00	TBD	TBD
Lazard Freres & Co. LLC ⁴	Graceway Pharmaceuticals, LLC	\$175,000.00	TBD	TBD
Young Conaway Stargatt & Taylor, LLP	Graceway Pharmaceuticals, LLC	\$75,000.00	TBD	TBD
BMC Group, Inc.	Graceway Pharmaceuticals, LLC	\$25,000.00	TBD	TBD
PricewaterhouseCoopers LLP	Graceway Pharmaceuticals, LLC	\$0.00	\$0.00	\$0.00
Hogan Lovells	Graceway Pharmaceuticals, LLC	\$0.00	\$0.00	\$0.00

Total

\$1,424,099.96

- ¹ Only includes professionals to be retained in the bankruptcy case. Ordinary Course Professionals and amounts paid to creditors' constituencies not included.
- ² Includes amounts remitted for pre-petition services rendered as well as retainers. A portion of these amounts have been used by the professionals pre-petition.
- ³ Exact amounts applied as of petition date and retainer remaining as of the filing date will be included in the professionals' first fee applications.
- ⁴ Lazard was paid its monthly fee of \$175,000 covering the period September 15 - October 14, 2011.