

**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 (PJW)

Jointly Administered

RE: Docket No. 12

Hearing Date: Nov. 22, 2011 at 11:00 a.m.

Objection Deadline: Nov. 4, 2011 at 4:00
p.m

LIMITED OBJECTION BY EI INC. TO DEBTORS' MOTION FOR ENTRY OF (I) AN ORDER APPROVING AND AUTHORIZING (A) BIDDING PROCEDURES IN CONNECTION WITH THE SALE OF CERTAIN ASSETS OF THE DEBTORS, (B) STALKING HORSE BIRD PROTECTIONS, (C) THE FORM AND MANNER OF NOTICE OF THE SALE HEARING AND (D) RELATED RELIEF; AND (II) AN ORDER AUTHORIZING (A) THE SALE OF CERTAIN ASSETS OF THE DEBTORS FREE AND CLEAR OF ALL CLAIMS, LIENS, LIABILITIES, RIGHTS, INTERESTS, AND ENCUMBRANCES; (B) THE DEBTORS TO ENTER INTO AND PERFORM THEIR OBLIGATIONS UNDER THE ASSET PURCHASE AGREEMENT; (C) THE DEBTORS TO ASSUME AND ASSIGN CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (D) GRANTING RELATED RELIEF

Ei Inc., formerly known as Harmony Labs, Inc. ("Ei Inc."), by and through its undersigned counsel, hereby objects on the limited basis set forth below to the Debtors' Motion for Entry of (I) An Order Approving and Authorizing (A) Bidding Procedures in Connection with the Sale of

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), Case No. 11-13037 (PJW); Graceway Holdings, LLC, a Delaware limited liability company (2502), Case No. 11-13038 (PJW); Graceway Pharmaceuticals, LLC, a Delaware limited liability company (5385), Case No. 11-13036 (PJW); Chester Valley Holdings, LLC, a Delaware limited liability company (9457), Case No. 11-13039 (PJW); Chester Valley Pharmaceuticals, LLC, a Delaware limited liability company (3713), Case No. 11-13041 (PJW); Graceway Canada Holdings, Inc., a Delaware corporation (6663), Case No. 11-13042 (PJW); and Graceway International, Inc., a Delaware corporation (2399),

Certain Assets of the Debtors, (B) Stalking Horse Bid Protections, (C) the Form and Manner of Notice of the Sale Hearing and (D) Related Relief; and (II) An Order Authorizing (A) the Sale of Certain Assets of the Debtors Free and Clear of All Claims, Liens, Liabilities, Rights, Interests, and Encumbrances; (B) the Debtors to Enter into and Perform their Obligations under the Asset Purchase Agreement; (C) the Debtors to Assume and Assign Certain Executory Contracts and Unexpired Leases; and (D) Granting Related Relief [D.E. 12] (the “Sale Motion”) filed by the above-captioned debtors and debtors-in-possession (collectively, the “Debtors”). In support thereof, Ei Inc. respectfully shows the Court as follows:

1. On September 29, 2011 (the “Petition Date”), each of the Debtors filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code.

2. Prior to the Petition Date, Ei Inc. and the Debtors were parties to three contracts for pharmaceutical supplies and services. The three contracts (collectively, as each may have been amended from time to time thereafter, the “Ei Inc. Contracts”) are (a) a supply agreement for Estrasorb and Zyclara, dated July 28, 2009; (b) a supply agreement for Benziq, dated August 22, 2005; and (c) a services agreement.

3. On September 29, 2011, the Debtors filed the Sale Motion in which they expressly seek authority from the Court to assume and assign executory contracts and unexpired leases to the successful bidder at an auction to be held on November 17, 2011 (assuming there is more than one Qualifying Bidder, as defined in the Bidding Procedures approved by this Court).

4. The Ei Inc. Contracts are executory contracts within the meaning of 11 U.S.C. § 365.

(..continued)

Case No. 11-13043 (PJW). The mailing address for Graceway Pharmaceuticals, LLC is 340 Martin Luther King Jr. Blvd., Suite 500, Bristol, TN 37620 (Attn: John Bellamy).

5. Ei Inc. objects to the Sale Motion to the extent that the Debtors fail to comply with 11 U.S.C. § 365(b) and (f) in connection with its assumption and assignment of any of the Ei Inc. Contracts.

6. Ei Inc. has two principal concerns with respect to the potential assumption and assignment of the Ei Inc. Contracts. Ei Inc. objects to the Sale Motion unless the Debtors first cure, as mandated by 11 U.S.C. § 365(b)(1) all of the defaults under the Ei Inc. Contracts to be assumed and assigned. Ei Inc. intends to file on or before the November 11, 2011 deadline established by the Court an objection to the Debtors' Amended Notice of (I) Cure Amount with Respect to Executory Contracts to Be Assumed and Assigned and (II) Potential Assumption and Assignment of Executory Contracts [D.E. 148] that will identify and provide detailed information supporting the pre-petition and post-petition defaults under the Ei Inc. Contracts. Ei Inc. files this limited objection to preserve its right to receive a full and complete cure of all defaults under the Ei Inc. Contracts, all as to be more particularly described in its objection to be filed.

7. Additionally, Ei Inc. does not object to the assumption and assignment of any of the Ei Inc. Contracts to the Stalking Horse Bidder (as defined in the Sale Motion) on the basis that the Debtors have failed to provide adequate assurance of the Stalking Horse Bidder's future performance thereunder, as required by 11 U.S.C. § 365(f)(2). However, Ei Inc. reserves the right to object to the assumption and assignment of any of the Ei Inc. Contracts to any party other than the Stalking Horse Bidder unless the Debtors and such other party provide Ei Inc. adequate assurance of future performance thereunder, as required by 11 U.S.C. § 365(f)(2).

WHEREFORE, Ei Inc. objects to the Sale Motion on the limited bases set forth above.

This 4th day of November, 2011.

/s/ Brett D. Fallon

Brett D. Fallon

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on November 4, 2011, a true and correct copy of the attached LIMITED OBJECTION BY EI INC. TO DEBTORS' MOTION FOR ENTRY OF (I) AN ORDER APPROVING AND AUTHORIZING (A) BIDDING PROCEDURES IN CONNECTION WITH THE SALE OF CERTAIN ASSETS OF THE DEBTORS, (B) STALKING HORSE BIRD PROTECTIONS, (C) THE FORM AND MANNER OF NOTICE OF THE SALE HEARING AND (D) RELATED RELIEF; AND (II) AN ORDER AUTHORIZING (A) THE SALE OF CERTAIN ASSETS OF THE DEBTORS FREE AND CLEAR OF ALL CLAIMS, LIENS, LIABILITIES, RIGHTS, INTERESTS, AND ENCUMBRANCES; (B) THE DEBTORS TO ENTER INTO AND PERFORM THEIR OBLIGATIONS UNDER THE ASSET PURCHASE AGREEMENT; (C) THE DEBTORS TO ASSUME AND ASSIGN CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (D) GRANTING RELATED RELIEF was served on the parties listed on the attached service list.

This 4th day of November, 2011.

/s/ Brett D. Fallon

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SERVICE LIST

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Special Bankruptcy and Restructuring Counsel to the Agent for the First Lien Lenders	United States Trustee
<p>Wachtell, Lipton, Rosen & Katz 51 West 52nd Street New York, NY 10019 Attn: Scott K. Charles, Esq. and Michael S. Benn, Esq. (SKCharles@wrk.com and MSBenn@wrk.com)</p> <p>DLA Piper LLP 919 North Market Street, 15th Floor Suite 1500 Wilmington, DE 19801 Attn: Stuart M. Brown, Esq. (stuart.brown@dlapiper.com)</p>	<p>Office of the United States Trustee for the District of Delaware 844 King Street J. Caleb Boggs Federal Building Room 2207, Lockbox 35 Wilmington, DE 19801 Attn: Juliet Sarkessian, Esq. (Juliet.M.Sarkessian@usdoj.gov)</p>
Financing Counsel to the Agent for the First Lien Lenders	Counsel to the Creditors' Committee
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Counsel to the Agent for the Second Lien Lenders	Counsel to the Stalking Horse Bidder
<p>Sidley Austin LLP One South Dearborn, Chicago, IL 60603 Attn: Larry Nyhan, Esq. (lnyhan@sidley.com)</p>	<p>Debevoise & Plimpton LLP 919 Third Avenue New York, NY 10022 Attn: My Chi To, Esq. and Kevin A. Rinker, Esq. (mcto@debevoise.com and karinker@debevoise.com)</p> <p>Morris, Nichols, Arsht & Tunnell LLP 1201 North Market Street, 18th Floor Wilmington, DE 19801 Attn: Gregory W. Werkheiser, Esq. (gwerkheiser@mnat.com)</p>