

**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

**MOTION OF THE DEBTORS FOR ENTRY OF AN ORDER ESTABLISHING
PROCEDURES FOR INTERIM COMPENSATION AND
REIMBURSEMENT OF EXPENSES OF PROFESSIONALS**

("Interim Compensation Motion")

The above-captioned debtors and debtors-in-possession (collectively, the "**Debtors**"), hereby move this Court (the "**Motion**") for entry of an order (the "**Order**"), in substantially the form attached hereto as Exhibit A, pursuant to 11 U.S.C. §§ 105(a), 327 and 331, Fed. R. Bankr. P. 2016, and Del. L. Bankr. R. 2016-1, establishing procedures by which professionals approved by the Court in these cases under 11 U.S.C. § 327 (the "**Professionals**") may obtain monthly payment of a portion of their fees and expenses, subject to review and adjustment in connection with quarterly fee applications filed with the Court. In support of this Motion, the Debtors respectfully state:

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).

Jurisdiction

1. This Court has jurisdiction over this Motion under 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue of this proceeding and this Motion is proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409.

2. The statutory bases for the relief requested herein are Sections 105(a), 327 and 331 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the “**Bankruptcy Code**”), Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”), and Rule 2016-1 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “**Local Rules**”).

Background

3. On the date hereof (the “**Petition Date**”), each of the Debtors filed a petition with this Court under chapter 11 of the Bankruptcy Code (collectively, the “**Chapter 11 Cases**”). 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 official 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.

4. A description of the Debtors’ businesses, the reasons for commencing these Chapter 11 Cases, and the relief sought from this Court to allow for a smooth transition into chapter 11 are set forth in the Declaration of Gregory C. Jones in Support of Chapter 11 Petitions and First Day Motions, filed on the Petition Date.

Relief Requested

5. By this Motion, the Debtors seek entry of the Order authorizing and establishing procedures for compensating and reimbursing Professionals on a monthly basis, comparable to those procedures established in other large chapter 11 cases in this District and elsewhere. Such an order will enable the Court and other interested parties to more effectively monitor the professional fees and expenses generated in these Chapter 11 Cases as they are incurred.

6. During this case, the Debtors will seek to retain (a) Latham & Watkins LLP, as counsel to the Debtors; (b) Young Conaway Stargatt & Taylor, LLP, as counsel to the Debtors; (c) Lazard Frères & Co. LLC, as investment banker; (d) Alvarez & Marsal North America, LLC, as restructuring advisor; and (e) PricewaterhouseCoopers LLP, as tax consultant. The Debtors anticipate that they may need to retain other professionals as the Chapter 11 Cases progress, and any official statutory committee will likely seek to retain counsel and other professionals, as well.

7. The Debtors have proposed, in a separate motion (the “**Ordinary Course Professional Motion**”), a payment scheme for various ordinary course of business professionals whom the Debtors employed prior to their retention of restructuring professionals (the “**Ordinary Course Professionals**”). The Debtors therefore request that the Ordinary Course Professionals not be subject to the procedures described herein or any order relating to this Motion.

Compensation and Reimbursement

8. The Debtors propose that, except as otherwise provided in an order of this Court authorizing the retention of a particular Professional, the Professionals be permitted to seek interim payment of compensation and reimbursement of expenses in accordance with the following procedures (collectively, the “**Compensation Procedures**”):

a. No earlier than the 5th day of each calendar month following the month for which compensation is sought, each Professional seeking interim allowance of its fees and expenses may file an application (including the relevant time entry and description and expense detail) with this Court pursuant to Section 331 of the Bankruptcy Code for interim allowance of compensation for services rendered and reimbursement of expenses incurred during the preceding month (a “**Monthly Fee Application**”), and serve a copy of such Monthly Fee Application on the following parties: (i) Graceway Pharmaceuticals, LLC, 340 Martin Luther King Jr. Blvd., Suite 500, Bristol, Tennessee 37620, Attn: John Bellamy; (ii) counsel for the Debtors, Latham & Watkins LLP, Suite 5800, 233 South Wacker Drive, Chicago, IL 60606, Attn: Josef S. Athanas and Young Conaway Stargatt & Taylor, LLP, 1000 West Street, 17th Floor, Wilmington, Delaware 19801, Attn: Michael R. Nestor; (iii) attorneys for any Committee appointed by the Office of the United States Trustee; (iv) The Office of the United States Trustee for the District of Delaware, 844 King Street, Suite 2207, Wilmington, Delaware 19801, Attn: Juliet Sarkessian; and (v) special restructuring and bankruptcy counsel to the administrative agent for the lenders under the Debtors’ prepetition first lien credit facility, Wachtell, Lipton, Rosen & Katz, 51 West 52nd Street, New York, New York 10019, Attn: Scott K. Charles and Michael S. Benn (collectively, the “**Notice Parties**”). All Monthly Fee Applications shall comply with the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules.

b. Each Notice Party will have eighteen (18) days after service of a Monthly Fee Application to object thereto (the “**Objection Deadline**”). If no objections are raised prior to the expiration of the Objection Deadline, the Professional submitting the Monthly Fee Application shall file a certificate of no objection with this Court, after which the Debtors shall be authorized to pay such Professional an amount equal to 80% of the fees and 100% of the expenses requested in its Monthly Fee Application (the “**Maximum Interim Payment**”). If an objection is properly filed, the Debtors shall be authorized to pay the Professional 80% of the fees and 100% of the expenses not subject to an objection (the “**Actual Interim Payment**”). The first Monthly Fee Application submitted by each Professional shall cover the period from the Petition Date through and including October 31, 2011.

c. If any Notice Party objects to a Professional’s Monthly Fee Application, it must, on or before the expiration of the Objection Deadline, file with this Court and serve on such Professional and each other Notice Party a written objection (an “**Objection**”) so as

to be received on or before the Objection Deadline. Any such Objection shall identify with specificity the objectionable fees and/or expenses, including the amount of such objected to fees and/or expenses, and the basis for such Objection. Thereafter, the objecting party and the affected Professional may attempt to resolve the Objection on a consensual basis. If the parties are unable to reach a resolution within fifteen (15) days after service of the Objection, the affected Professional may either: (i) file a response to the Objection with this Court, together with a request for payment of the difference, if any, between the Maximum Interim Payment and the Actual Interim Payment made to such Professional (the “**Incremental Amount**”); or (ii) forego payment of the Incremental Amount until the next interim or final fee application hearing, at which time this Court will consider and rule on the Objection if requested by the parties.

d. Beginning with the approximate three-month period from the Petition Date and ending on December 31, 2011, and at each three-month period thereafter, each Professional shall file with this Court and serve on the Notice Parties an application (an “**Interim Fee Application**”) for interim allowance of compensation and reimbursement of expenses sought in the Monthly Fee Applications filed during such three-month period (the “**Interim Fee Period**”) pursuant to Section 331 of the Bankruptcy Code. The Interim Fee Application must identify the covered Monthly Fee Applications and include any other information requested by this Court or required by the Local Rules. Interim Fee Applications shall be filed with this Court and served on the Notice Parties within 45 days after the end of the applicable Interim Fee Period. Each Professional shall file its first Interim Fee Application on or before February 14, 2012, and the first Interim Fee Application shall cover the Interim Fee Period from the Petition Date through and including December 31, 2011.

e. The Debtors shall request that this Court schedule a hearing on Interim Fee Applications at least once every six (6) months or at such other intervals as this Court deems appropriate.

f. The pendency of an Objection to payment of compensation or reimbursement of expenses shall not disqualify a Professional from the future payment of compensation or reimbursement of expenses pursuant to the Compensation Procedures.

g. Neither (i) the payment of or the failure to pay, in whole or in part, monthly interim compensation and reimbursement of expenses under the Compensation Procedures, nor (ii) the filing of or the failure to file an Objection to any Monthly Fee Application

or Interim Fee Application will bind any party in interest or this Court with respect to the allowance of interim or final applications for compensation for services rendered and reimbursement of expenses of Professionals. All fees and expenses paid to Professionals in accordance with the Compensation Procedures are subject to disgorgement until final allowance by this Court.

9. The Compensation Procedures will enable all interested parties to closely monitor the costs of administration in these Chapter 11 cases. Moreover, they will permit the Debtors to maintain a more level cash flow and to implement more efficient cash management procedures.

10. If any party in interest contends that any Professional has a conflict of interest or other affiliation requiring disqualification resulting from matters reasonably disclosed in connection with the Professional's retention application or any amendment thereto, such party in interest shall immediately file an objection to the Professional's retention, detailing the alleged conflict or other disqualifying factors, and shall raise any such contention at the first omnibus hearing following such disclosure (unless an earlier hearing is scheduled by the Court in connection with the objection). Each Professional shall have a continuing obligation to disclose any matter that may affect qualification for court-approved employment under the Bankruptcy Code or disqualification from employment under any relevant ethical consideration.

Basis for Relief

11. Section 331 of the Bankruptcy Code provides in relevant part:

A trustee, an examiner, a debtor's attorney, or any professional person employed under section 327 or 1103 of this title may apply to the court not more than once every 120 days after an order for relief in a case under this title, or more often if the court permits, for such compensation for services rendered before the date of such an application or reimbursement for expenses incurred before such date as is provided under section 330 of this title. After notice and a hearing, the court may allow and disburse to such applicant such compensation or reimbursement.

11 U.S.C. § 331. Absent an order of this Court, Section 331 of the Bankruptcy Code limits payment of fees and expenses to Professionals rendering services in these Chapter 11 Cases to only three times per year.

12. Congress' intent in enacting Section 331 is expressed unequivocally in the House and Senate Reports accompanying enactment of the Bankruptcy Code:

The court may permit more frequent applications if the circumstances warrant, such as in very large cases where the legal work is extensive and merits more frequent payments. The court is authorized to allow and order disbursement to the applicant of compensation and reimbursement that is otherwise allowable under section 330.

H.R. Rep. No. 595, 95th Cong., 1st Sess. 330 (1977); S. Rep. No. 989, 95th Cong., 2d Sess. 41-42 (1978).

13. Section 105(a) of the Bankruptcy Code provides, in relevant part, that “[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title.” 11 U.S.C. § 105(a). As set forth below, courts have regularly entered orders, in accordance with Section 105(a) of the Bankruptcy Code, establishing procedures providing for the interim compensation and expense reimbursement of professionals on a monthly basis.

14. The Debtors submit that the Compensation Procedures are appropriate and consistent with interim compensation procedures established in other large chapter 11 cases in this District. See, e.g., In re NEC Holdings Corp., Case No. 10-11890 (PJW) (Bankr. D. Del. July 13, 2010); In re Accuride Corp., Case No. 09-13449 (BLS) (Bankr. D. Del. Nov. 2, 2009); In re KB Toys, Inc., Case No. 08-13269 (KJC) (Bankr. D. Del. Jan. 5, 2009); In re Sharper Image Corp., Case No. 08-10322 (KG) (Bankr. D. Del. Mar. 20, 2008); In re Buffets Holdings,

Inc., Case No. 08-10141 (MFW) (Bankr. D. Del. Feb. 12, 2008); and In re Am. Home Mortg. Holdings, Inc., Case No. 07-11047 (CSS) (Bankr. D. Del. Sept. 4, 2007).

15. The Debtors further submit that the efficient administration of these Chapter 11 Cases will be significantly aided by implementing the proposed procedures. Accordingly, the Debtors submit that the relief requested herein is in the best interests of the Debtors, their estates and creditors, and therefore should be granted.

Notice

16. The Debtors have provided notice of this Motion to: (a) the United States Trustee for the District of Delaware; (b) financing counsel to the administrative agent for the lenders under the Debtors' prepetition first lien credit facility; (c) special restructuring and bankruptcy counsel to the administrative agent for the lenders under the Debtors' prepetition first lien credit facility; (d) counsel to the administrative agent for the lenders under the Debtors' prepetition second lien credit facility; (e) the administrative agent for the lenders under the Debtors' prepetition unsecured mezzanine credit facility; (f) the creditors listed on the Debtors' consolidated list of 30 largest unsecured creditors, as filed with the Debtors' chapter 11 petitions; (g) the Food and Drug Administration; (h) the Internal Revenue Service; and (i) all parties requesting notice pursuant to Bankruptcy Rule 2002. In light of the nature of the relief requested, the Debtors submit that no further notice is required or needed under the circumstances.

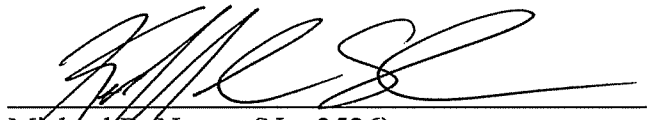
17. A copy of the Motion is available on the Court's website: www.deb.uscourts.gov. Additional copies of the Motion are available for free on the website of the Debtors' proposed claims, noticing, soliciting and balloting agent, BMC Group, Inc., at

www.bmcgroup.com/graceway, or can be requested by calling (888) 909-0100 from within the United States or +1 (310) 321-5555 if calling from outside the United States.

WHEREFORE, the Debtors respectfully request that this Court enter the Order, substantially in the form attached hereto as Exhibit A, (a) establishing procedures for interim compensation and reimbursement of expenses of Professionals, and (b) granting such other and further relief as this Court deems appropriate.

Dated: September 29, 2011
Wilmington, Delaware

Respectfully Submitted,



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