

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

)	
In re:)	Chapter 11
Graceway Pharmaceuticals, LLC, <i>et al.</i>,¹)	Case No. 11-13036 (PJW)
)	(Jointly Administered)
)	
Debtors.)	Objection Deadline: 12/20/2011 @ 4:00 p.m.
)	Hearing Date: Only if Objections are Filed

**FIRST MONTHLY APPLICATION OF FTI CONSULTING, INC. FOR COMPENSATION
FOR SERVICES RENDERED AND REIMBURSEMENT OF EXPENSES AS FINANCIAL
ADVISOR FOR THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS
FOR THE PERIOD OCTOBER 13, 2011 THROUGH OCTOBER 31, 2011**

Name of Applicant: FTI Consulting, Inc.

Authorized to Provide Professional Services to: Official Committee of Unsecured Creditors

Date of Retention: October 13, 2011

Period for which compensation and reimbursement is sought: October 13, 2011 through October 31, 2011

Amount of Compensation sought as actual, reasonable and necessary: \$189,395.50

Amount of Expense Reimbursement sought as actual, reasonable and necessary: \$26.31

This is an: Monthly Interim Final Application

Prior applications: none.

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)

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SUMMARY OF PROFESSIONAL HOURS AND FEES

PROFESSIONAL	POSITION	BILLING	TOTAL HOURS	TOTAL FEES
Star, Samuel	Senior Managing Director	\$ 895	41.1	\$ 36,784.50
Meakin, Nigel	Senior Managing Director	870	20.8	18,096.00
Greenberg, Mark	Managing Director	745	74.2	55,279.00
Braun, Richard	Managing Director	730	21.5	15,695.00
Korn, Gary	Director	560	49.5	27,720.00
Koo, Julius	Director	550	1.0	550.00
Hofstad, Ivo J	Director	450	0.5	225.00
Bekker, Andrew	Consultant	380	12.2	4,636.00
Swetz, Michael	Consultant	305	92.0	28,060.00
Hellmund-Mora, Marili	Paraprofessional	250	9.4	2,350.00
Grand Total			322.2	\$ 189,395.50

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COMPENSATION BY PROJECT CATEGORY

PROJECT CATEGORY	TOTAL HOURS	TOTAL FEES
Analysis of Business Plan	1.6	\$ 488.00
Analysis of Claims/Liabilities Subject to Compromise	8.6	4,075.00
Analysis of Interco. Claims, Related Party Transactions, Subcon	0.2	179.00
Analysis of Other Miscellaneous Motions	7.7	4,751.00
Asset Sales	32.3	22,381.50
Case Management	6.2	5,384.00
Cash & Liquidity Analysis	22.3	10,663.50
Current Operating Results and Events	6.2	3,512.00
Financing Matters (DIP, Exit, Other)	0.7	626.50
Firm Retention	50.6	16,181.00
General Meetings with Committee & Committee Counsel	52.2	32,493.50
General Meetings with Debtors & Debtors' Professionals	19.0	13,481.50
Meetings with Other Parties	6.3	5,028.00
POR & DS - Analysis, Negotiation and Formulation	12.7	9,052.50
Prepare for and Attend Court Hearings	1.8	1,566.00
Valuation and Related Matters	93.8	59,532.50
TOTAL	322.2	\$ 189,395.50

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EXPENSE SUMMARY

EXEPNSE CATEGORY	AMOUNT
Meals	\$ 14.31
Transportation	12.00
TOTAL	\$ 26.31

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FTI Consulting, Inc. (hereinafter referred to as “FTI Consulting”, “FTI” or the “Applicant”) as Financial Advisor for the Official Committee of Unsecured Creditors (the “Committee”) of the above-captioned debtors and debtors in possession. (collectively, the “Debtors”) files this First Monthly Application for Compensation for Services Rendered and Reimbursement of Expenses (the “Application”) for the period of October 13, 2011 through October 31, 2011 (the “Application Period”). In support of this application, the Applicant respectfully represents as follows:

Jurisdiction

1. The Court has jurisdiction over this matter under 28 U.S.C. § 157 and 1334. This is a core proceeding within the meaning of 28 U.S.C. §§ 157(b)(2). Venue of this chapter 11 case in this district is proper under 28 U.S.C. §§ 1408 and 1409.

⁴ 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)

Background

2. On September 29, 2011 (the “Petition Date”), the Debtors filed a voluntary petition for relief pursuant to chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). Since that date, the Debtors have continued in possession of their business and property as debtors-in-possession in accordance with sections 1107(a) and 1108 of the Bankruptcy Code.

3. On October 11, 2011 the Office of the United States Trustee held a meeting to appoint the Committee pursuant to section 1102 of the Bankruptcy Code (the “Formation Meeting”). After the Formation Meeting, the Committee selected Lowenstein Sandler PC as its counsel, and on October 13, 2011, the Committee selected FTI Consulting as its financial advisor.

4. The Applicant’s retention as Financial Advisor to the Committee was approved as of October 13, 2011 by this Court (the “Retention Order”). A copy of said order, dated November 7, 2011, is attached hereto as **Exhibit A** and incorporated herein by reference.

Relief Requested

5. FTI submits this Application pursuant to sections 330 and 331 of the Bankruptcy Code, Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), the Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses of Professionals (the “Interim Compensation Order”), Del. Bankr. L.R. 2016-2 and the Retention Order. By this Application, FTI seeks interim allowance of compensation for actual and necessary professional services rendered in the amount of \$151,516.40 for the Application Period (80% of total fees of \$189,395.50), and seeks the allowance and payment of 100% of its actual and necessary expenses in the amount of \$26.31, in accordance with the terms of the Interim Compensation Order.

6. The Applicant is charging on an hourly basis for these services. The total number of hours expended by FTI professionals and paraprofessionals in performing professional services for the Committee during the Application Period was 322.2 hours. Pursuant to the Retention Order, FTI

is entitled to monthly compensation for its services provided to the Committee at its current hourly rates, plus reimbursement of necessary out of pocket expenses. The fees applied for herein are based on the hourly rates that reflect the usual and customary fees charged to all clients of the Applicant for similar services.

7. An itemization of services rendered within each project category by each professional and paraprofessional during the Application Period is attached hereto as **Exhibit B**. The narratives below describe the more significant services rendered by the Applicant for each of the project categories and its benefit to the Committee.

Asset Sales

8. FTI addressed various aspects of the asset sale process conducted by the Debtors and the resultant impact on unsecured creditors, including: (a) gaining an understanding of the Debtors' pre- and post-petition marketing processes; (b) review of the Debtors' buyer candidate list and identification of buyer candidates not included; (c) review of the Debtors' proposed bidding procedures; and (d) review of the asset purchase agreement of the stalking horse bidder. Additionally, FTI reviewed data room documents posted for potential buyers.

Cash and Liquidity Analysis

9. FTI analyzed the Debtors' cash flow budget, which is comprised of a weekly pre-sale budget and a monthly post-sale budget through an assumed date of confirmation. FTI also analyzed weekly actual vs. budget variance reports provided by the Debtors. In addition, FTI reviewed the terms and conditions of the cash collateral motion, including financial covenants.

Firm Retention

10. In order to be retained as financial advisor to the Committee, FTI drafted a retention application and supporting affidavit. This process included extensively researching former and

current relationships among hundreds of parties-in-interest in order to identify any potential conflicts and relationships requiring disclosure.

General Meetings with Committee & Committee Counsel

11. FTI participated in weekly conference calls with the Committee and its counsel, providing updates on significant case issues, including the Debtors' cash flow budget and liquidity position, the status of cash collateral motion and DIP financing, the asset sale process, and the potential value of unencumbered assets, particularly the value of the equity in the Canadian entity. In preparation for these conference calls, FTI prepared weekly reports for presentation to the Committee.

Valuation and Related Matters

12. Recovery of value to the unsecured creditors is largely based on the value of unencumbered assets, particularly the equity in the Canadian entity. FTI reviewed the Debtors' motion ascribing value to the Canadian assets to be acquired through the proposed asset sale, and assessed the proposed value through review of historical and projected profitability, review of license and IP agreements, and research of comparable companies and comparable M&A transactions. FTI prepared a valuation of Canadian assets (both acquired and remaining), liabilities and equity value for settlement negotiations with counsel to the first lien lenders and for presentation to the Committee.

Actual and Necessary Costs and Expenses Incurred

13. Reimbursement of expenses in the amount of \$26.31 is sought herein. A categorized summary of the actual and necessary costs and expenses incurred by FTI during the Application Period, and an itemization of each expense within each category, is attached as **Exhibit C**.

Compliance with the Bankruptcy Code, the Bankruptcy Rules and Local Rules

14. In accordance with Del. Bankr. L.R. 2016-2, a summary schedule of hours and fees

for each professional, and a summary of hours and fees categorized by project code are attached at the front of the Application. The undersigned submits that this Fee Application complies with Del. Bankr. L.R. 2016-2 and the Retention Order.

15. FTI submits that the services rendered and expenses incurred were actual and necessary and that the compensation sought is reasonable and in accordance with the standards of the Bankruptcy Code and Bankruptcy Rules.

16. No agreement or understanding exists between FTI and any other entity (other than shareholders or employees of FTI) for the sharing of compensation received or to be received for services rendered in or in connection with these cases.

Notice

17. As required by the Interim Compensation Order, a copy of this Fee Application has been served upon: (a) Graceway Pharmaceuticals, LLC; (b) counsel for the Debtors (c) counsel for the Committee (d) the Office of the United States Trustee for the District of Delaware; and (e) special restructuring and bankruptcy counsel to the administrative agent for the lenders under the Debtors' prepetition first lien credit facility. Notice of this Fee Application was served upon all parties requesting notice pursuant to Bankruptcy Rule 2002.

WHEREFORE, FTI respectfully requests an award of compensation for professional services rendered as financial advisor to the Committee during the Application Period in the amount of \$151,516.40 (80% of total fees of \$189,395.50), together with the reimbursement of expenses in the amount of \$26.31 pursuant to the Interim Compensation Order; and such other and further relief that the Court deems just and proper.

Dated: November 30, 2011

FTI CONSULTING, INC.

By: /s/ Samuel Star
Samuel Star
Three Times Square
New York, NY 10036
Telephone: 212.841.9368
E-mail: samuel.star@fticonsulting.com

Financial Advisor for the Official Committee of
Unsecured Creditors of Graceway Pharmaceuticals,
LLC, et al.

VERIFICATION PURSUANT TO DEL. BANKR.LR. 2016-2(f) AND 28 U.S.C. §1746(2)

I, Samuel Star, verify as follows:

1. I am a Senior Managing Director with FTI Consulting, Inc. (together with its wholly owned subsidiaries, agents, independent contractors and employees, "FTI"). FTI has rendered professional services to the Official Committee of Unsecured Creditors (the "Committee") in this Chapter 11 case.

2. I have read the foregoing application of FTI for compensation and reimbursement of expenses (the "Fee Application"). To the best of my knowledge, information and belief formed upon the basis of my participation in this case, as well as after reasonable inquiry, the facts set forth in the foregoing Fee Application are true and correct and materially comply with the applicable orders, rules, guidelines and requirements as set forth by the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, Del.Bankr.L.R. 2016-2, and the Executive Office for the United States Trustee.

Executed on: November 30, 2011

FTI CONSULTING, INC.

By: /s/ Samuel Star
Samuel Star
Three Times Square
New York, NY 10036
Telephone: 212.841.9368
E-mail: samuel.star@fticonsulting.com

Financial Advisor for the Official Committee of
Unsecured Creditors of Graceway Pharmaceuticals,
LLC, et al.

Invoice No. 7281281 should be referenced when making payment. Check and wire transfer instructions are as follows:

By Check Remit to:

FTI Consulting Inc
P.O. Box 418178
Boston, MA 02241-8178
RE: Invoice: 7281281
Project No. 425619.0002

By Wire Transfer Remit to:

FTI Consulting
Bank of America, NA
Rockville, MD 20852
Account # 003939577164
ABA # 026009593
Tax ID #52-1261113
RE: Invoice: 7281281
Project No. 425619.0002

By ACH Transfer Remit to:

Bank of America, NA
Rockville, MD 20852
ABA: # 052001633
Account: # 003939577164
RE: Invoice: 7281281
Project No. 425619.0002