

**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: December 27, 2011 @ 4:00 p.m.
)	Hearing Date: N/A

**SECOND MONTHLY APPLICATION OF LAZARD FRERES & CO. LLC AS
INVESTMENT BANKER TO THE DEBTORS FOR ALLOWANCE OF
COMPENSATION AND REIMBURSEMENT OF EXPENSES FOR THE PERIOD
NOVEMBER 1, 2011 THROUGH NOVEMBER 30, 2011**

Name of Applicant:	Lazard Frères & Co. LLC
Authorized to Provide Professional Services to:	Debtor
Date of Retention:	October 17, 2011 <i>nunc pro tunc</i> September 29, 2011
Period for which compensation and/or reimbursement is sought:	November 1, 2011 through November 30, 2011
Amount of Compensation sought as actual, reasonable, and necessary:	\$2,656,250.00²
Amount of Expenses sought as actual, reasonable, and necessary	<u>\$66.15</u>
Total Compensation and Expense Reimbursement Requested:	\$2,656,316.15
Less: Amounts Paid to Date:	<u>(\$0.00)³</u>
Net Amount of Compensation Requested:	\$2,656,316.15

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), Case No. 11-13043 (PJW).

² Per Lazard's engagement letter, the compensation requested includes a Monthly Fee of \$175,000.00 for November 2011 and a Sale Transaction Fee of \$2,481,250.00.

³ Prior to the Petition Date, Lazard received a retainer of \$10,000.00 for pre-petition costs incurred but not yet processed. As of November 30, 2011, Lazard has applied \$2,818.64 of pre-petition expenses against the retainer. Therefore, the unapplied balance of the retainer is \$7,181.36.

This is a: monthly interim final application

The total time expended for fee application preparation was approximately 6.5 hours.

Summary of Monthly Fee and Expense Invoices for the Compensation Period:

Date Filed	Period Covered	Requested		Paid	
		Fees	Expenses	Fees	Expenses
TBD	09/29/11-10/31/11	\$87,500.00	\$0.00	\$0.00	\$0.00
Current	11/01/11-11/30/11	\$2,656,316.15	\$0.00	\$0.00	\$0.00

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GRACEWAY PHARMACEUTICALS, LLC,) Case No. 11-13036 (PJW)
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TO THE HONORABLE PETER J. WALSH,
UNITED STATES BANKRUPTCY JUDGE:

Lazard Frères & Co. LLC, (“Lazard”), Investment Banker to Graceway Pharmaceuticals LLC, (“Graceway”), et al., (collectively, the “Debtors”) hereby submits its Second Monthly Fee Application (the “Application”) pursuant to sections 327(a) and 328(a) of title 11 of the United States Code (the “Bankruptcy Code) and Rules 2014 and 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and 2014-1 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Local Rules”) for an allowance of compensation for professional services rendered and for reimbursement of actual and necessary expenses incurred in connection with such services from November 1, 2011 through and including November 30, 2011 (the

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), 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), Case No. 11-13043 (PJW).

“Compensation Period”) as set forth in their engagement letter (the “Engagement Letter”), attached hereto as **Exhibit B**. Pursuant to the Administrative Order of this Court dated October 17, 2011 [Docket No. 20] approving procedures for interim compensation and reimbursement of professionals (the “Compensation Order”), Lazard seeks interim allowance in aggregate amount of **\$2,656,316.15** for financial advisory services provided to the debtors. In support of this Application, Lazard respectfully represents as follows:

BACKGROUND

1. On September 29, 2011 (the “Petition Date”), the debtors filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code. Pursuant to sections 1107 and 1108 the Bankruptcy Code, the debtors have continued to operate their businesses and manage their properties as debtors in possession since the Petition Date.

2. This Application is submitted pursuant to the terms of the Compensation Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses dated October 17, 2011.

3. On October 17, 2011, this Court entered certain Order Pursuant to sections 327(a), 328(a) of the Bankruptcy Code and Rules 2014 and 2016 of the Federal Rules of Bankruptcy Procedure, the Bankruptcy Rules and Rule 2014-1 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware authorizing the retention and employment of Lazard Freres & Co. LLC as Graceway Pharmaceuticals LLC *nunc pro tunc* to September 29, 2011 (the “Retention Order”), attached hereto as **Exhibit C**.

COMPENSATION REQUEST

4. Lazard seeks allowance of compensation for professional services rendered to the Debtor during the Compensation Period in the aggregate amount of \$2,656,250.00 and for reimbursement of expenses incurred in connection with the rendition of such services in the aggregate amount of \$66.15, for a total award \$2,656,316.15 (the "Total Compensation Amount").

5. For the convenience of the Court and all parties in interest, attached hereto as Exhibit D is a summary setting forth the name of each professional for whose work on these reorganization cases compensation is sought.

SUMMARY OF SERVICES

6. The Managing Directors, Vice Presidents and Analyst of Lazard who have rendered professional services during the Compensation Period in these cases are as follows: Daniel Aronson (Managing Director); Stephen Sands (Managing Director); Sachin Lulla (Vice President); Jordan Klein (Vice President) and Philip Nguyen (Financial Analyst).

7. During the Compensation Period, the Debtors relied heavily on the experience and expertise of the above-named persons in dealing with matters described in Paragraph 8. As a result, Lazard's highly skilled restructuring and healthcare industry professionals devoted significant time and effort to perform properly and expeditiously the required professional services.

8. A summary of some of the services rendered by Lazard during the Compensation Period are as follows:

- a) Meetings with Management, Professionals and Official Committees – During the course of the Compensation Period, Lazard participated in various calls and meetings with management, the Debtors’ professionals, the 1st lien professionals, the Unsecured Creditors Committee’s professional and the Canadian Receiver to discuss the case status, the 363 sale process and other topics.
- b) Merger & Acquisition Activity – Prior to the Petition Date, Lazard ran a comprehensive marketing process to sell the majority of the Debtors’ assets that resulted in the Stalking Horse Agreement with Galderma SA. After the Petition Date, Lazard began discussions with potential buyers identified in the pre-petition process and other potential interested parties in order to determine if the potential buyer was interested in participating in the auction process. After the Bidding Procedures Order was approved by the Court on October 17, 2011, Lazard facilitated a diligence process for three potential buyers and continued discussions with other parties. Lazard was the central point of contact for information requests, diligence calls with management and other information requests from the buyers. The marketing process for the auction led to two qualified bids and therefore an auction was conducted on November 17, 2011. The auction resulted in a sale to Medicis Pharmaceuticals and the purchase price increased approximately 65% to \$455 million. After the auction, Lazard and the Debtors’ other professionals assisted management with various closing related items. The sale transaction closed on December 2, 2011.
- c) Canadian Value Allocation Analysis – Lazard prepared an analysis to allocate the purchase price to the Canadian and U.S. assets. The valuation analysis involved understanding the structure of the asset sale under the Stalking Horse asset purchase agreement and the operating structure of the Debtors business. Lazard worked with management and Counsel to prepare its analysis and understand the interdependence of the Canadian operations on the U.S. operations. Based on this diligence, Lazard prepared a valuation analysis that was filed with the Court on October 17, 2011. Throughout this process Lazard had discussions with the Canadian Receiver regarding the value allocation. After discussing with the Receiver, the analysis was revised and a supplemental valuation analysis was filed on October 25, 2011. During the Compensation Period, the Unsecured Creditors Committee objected to the value allocation methodology, which required Lazard to conduct additional diligence regarding the Debtors’ operating structure. After the auction, Lazard with the assistance of the Debtors’ counsel, negotiated a settlement regarding the Canadian value allocation with the support of the 1st lien lenders and the unsecured creditors committee, which was presented to the Court on November 22, 2011.

CONCLUSION

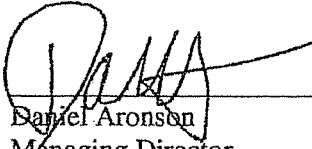
11. It is respectfully submitted that the amount requested by Lazard is fair and reasonable given (a) the complexity of the issues presented, (b) the time and labor required, (c) the skill necessary to perform the financial advisory services, (d) the preclusion of other employment, and (e) the customary fees charged to clients in bankruptcy and non-bankruptcy situations.

WHEREFORE Lazard respectfully requests (i) an interim allowance of compensation for professional services rendered during the Compensation Period in the amount of \$2,656,316.15.

Total Amount of Compensation Requested:	\$2,656,316.15
Less: Amounts Paid to Date:	<u>(\$0.00)</u>
Net Amount of Compensation Requested:	<u>\$2,656,316.15</u>

Dated: December 5, 2011
New York, New York

LAZARD FRÈRES & CO. LLC

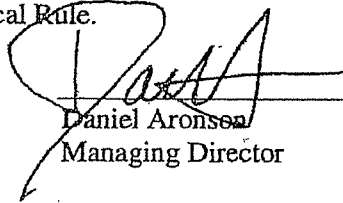

Daniel Aronson
Managing Director
Lazard Frères & Co. LLC
30 Rockefeller Plaza, 61st Floor
New York, NY 10020

JASE JACOTTO
CHIEF FINANCIAL OFFICER
INVESTMENT BANKER TO THE DEBTOR
(212) 632-6000

VERIFICATION

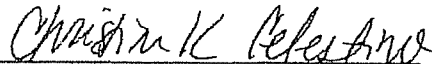
DANIEL ARONSON, being duly sworn, deposes and says:

1. I am a Managing Director of Lazard Frères & Co. LLC ("Lazard"), which maintains offices for providing investment banking services at 30 Rockefeller Plaza, New York, New York 10020. Lazard has acted as an investment banker to and rendered professional services on behalf of the Debtor.
2. This affidavit is submitted pursuant to Bankruptcy Code Rule 2016 in connection with Lazard's application (the "Application") for Allowance of Compensation and Reimbursement of Expenses for the time period from November 1, 2011 through and including November 30, 2011 in the amount of **\$2,656,316.15**.
3. All of the services for which compensation is sought by Lazard were performed for and on behalf of the Debtors and not on behalf of any other person.
4. No agreement or understanding exists between Lazard and any other entity for the sharing of compensation received or to be received for services rendered in or in connection with these cases.
5. I have reviewed the requirements of Rule 2016-2 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware, and I believe that this application complies with the Local Rule.



Daniel Aronson
Managing Director

Sworn to before this 5th day of December 2011



Notary Public, State of Illinois

