UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In Re:	§	**Chapter 11**
	§	
W.R. GRACE & CO., et al.,	§	**Jointly Administered**
	§	**Case No. 01-01139 (JKF)**
Debtors.	§	
	§	

FEE AUDITOR'S FINAL REPORT REGARDING
INTERIM FEE APPLICATION OF THE BLACKSTONE GROUP L.P.
FOR THE SEVENTH INTERIM PERIOD

This is the final report of Warren H. Smith & Associates, P.C. ("Smith"), acting in its capacity as fee auditor in the above-captioned bankruptcy proceedings, regarding the Interim Fee Application of the Blackstone Group L.P. for the Seventh Interim Period (the "Application").

BACKGROUND

1. The Blackstone Group L.P. ("Blackstone") was retained as financial advisor to the Debtors. In the Application, Blackstone seeks approval of fees totaling $525,000.00 and costs totaling $5,537.49 for its services from October 1, 2002, through December 31, 2002.

2. In conducting this audit and reaching the conclusions and recommendations contained herein, we reviewed in detail the Application in its entirety, including each of the time entries included in the exhibits to the Application, for compliance with Local Rule 2016-2 of the Local Rules of the United States Bankruptcy Court for the District of Delaware, Amended Effective February 1, 2001, and the United States Trustee Guidelines for Reviewing Applications for Compensation and Reimbursement of Expenses Filed Under 11 U.S.C. § 330, Issued January 30, 1996, (the "Guidelines"), as well as for consistency with precedent established in the United States

Bankruptcy Court for the District of Delaware, the United States District Court for the District of Delaware, and the Third Circuit Court of Appeals. We served on Blackstone an initial report based on our review and received a response from Blackstone, portions of which response are quoted herein.

DISCUSSION

General Issues

3. We note that Blackstone professionals spent a total of 511 hours on the activities for which fees totaling $525,000.00 are sought. The effective hourly rate is thus $1,027.40.

4. In our initial report, we noted that Blackstone professionals continue to record their time entries in one-half-hour increments. This practice is at odds with Paragraph II.D.5. of the Guidelines, which provides that "[t]ime entries should be kept contemporaneously with the services rendered in time periods of tenths of an hour". This issue was noted in previous reports and we again requested compliance with this convention in the future. Blackstone replied as follows:

> The Retention Order specifically exempts Blackstone from the U.S. Trustee's Guidelines concerning maintaining time records in tenths of an hour and specifically permits it to maintain time records in half-hour increments.

We accept this explanation.

Specific Time and Expense Entries

5. In our initial report we noted that on November 6, 2002 there is a hotel expense for $382.57 which may be excessive. The entry is provided below.

Zilly (hotel stay @ the Harbor Court Hotel in Baltimore, MD) 11/06/02 382.57

Paragraph II.E.1.of the Guidelines states, ". . .[f]actors relevant to a determination that the expense is proper include the following: 1. Whether the expense is reasonable and economical. For example,

first class and other luxurious travel mode or accommodations will normally be objectionable." We asked Blackstone to forward any documentation to support the position that this expense is reasonable and economical. Blackstone's response is provided below.

> On November 5, 2002, Ms. Pamela Zilly traveled to Baltimore, Maryland to attend the Debtors' board meeting, and to review presentation materials. The Board meeting was an afternoon meeting and Mr. Paul Norris, CEO of Grace, requested that Ms. Zilly stay over to attend a dinner meeting with the Board and members of management. Ms. Zilly stayed at the Harbor Court at the recommendation of the Company since that was the location of the Board meeting and the dinner. The hotel expense incurred consisted of a room charge of $235.00, plus taxes in the amount $29.38 for a one night stay at the Harbor court Hotel in Baltimore, MD, long-distance telephone charges totaling $118.19 as a result of conference calls with the finance staff of Grace to review tax items and other financial issues prior to the meeting and to other Blackstone personnel in connection with the aforementioned topics, and a meal charge in the amount $15.75.

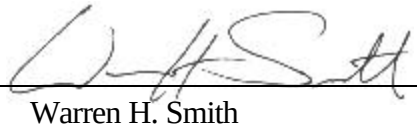
We appreciate the response and have no objection to this expense.

CONCLUSION

6. Thus, we recommend approval of fees totaling $525,000.00 and costs totaling $5,537.49 for Blackstone's services from October 1, 2002, through December 31, 2002.

Respectfully submitted,

WARREN H. SMITH & ASSOCIATES, P.C.

By: 

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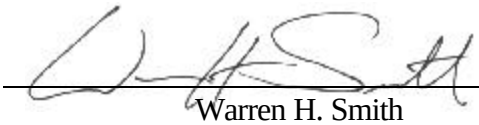
CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served First Class United States mail to the attached service list on this 29th day of April, 2003.



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