W R GRACE & CO
Form 10-Q/A
August 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13953

W. R. GRACE & CO.

Delaware	65-0773649
(State of Incorporation)	(I.R.S. Employer Identification No.)

7500 Grace Drive
Columbia, Maryland 21044
(410) 531-4000

(Address and phone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X   No ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X   No ____

65,616,330 shares of Common Stock, $0.01 par value, were outstanding at April 30, 2004.

PORTIONS AMENDED

The Registrant hereby amends its report on Form 10-Q for the quarterly period ended March 31, 2004 for the restatement of the Registrant's consolidated financial statements as of March 31, 2004 and December 31, 2003 to correct the U.S. dollar translation of a third party's interest in a small consolidated joint venture. Due to a currency conversion error, the third party interest was mistakenly calculated at $20.0 million instead of $200,000, a condition that was discovered as part of Grace's second quarter 2004 financial review. The effect of this non-cash correction to Grace's December 31, 2003 balance sheet was to increase shareholders' equity by $19.8 million and to decrease liabilities by the same amount. This condition had no effect on originally reported net loss, per share amounts, net sales, operating income or any other element of Grace's Consolidated Statement of Operations for the year ended December 31, 2003, or for the three months ended march 31, 2004. Except as set forth in Note 1A to the accompanying consolidated financial statements, no other changes are made to the Registrant's report on Form 10-Q for the quarterly period ended March 31, 2004.

W. R. GRACE & CO. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of
Directors of W. R. Grace & Co.:

We have reviewed the accompanying consolidated balance sheet of W. R. Grace & Co. and its subsidiaries as of March 31, 2004, and the related consolidated statements of operations and of comprehensive income (loss) for each of the three-month periods ended March 31, 2004 and March 31, 2003, the consolidated statements of shareholders' equity (deficit) for the three-month period ended March 31, 2004 and the consolidated statements of cash flows for each of the three-month periods ended March 31, 2004 and March 31, 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated interim financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated interim financial statements, on April 2, 2001, the Company and substantially all of its domestic subsidiaries voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code, which raises substantial doubt about the Company's ability to continue as a going concern in its present form. The accompanying consolidated interim financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2003, and the related consolidated statements of operations, of cash flows, of shareholders' equity (deficit) and of comprehensive income (loss) for the year then ended (not presented herein). Our report, which was modified as to a matter raising substantial doubt about the Company's ability to continue as a going concern, was dated January 27, 2004 (except for Note 1A of the financial statements as to which the date is August 6, 2004). In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2003, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 1A, the accompanying consolidated financial statements have been restated to correct the U.S. dollar translation of a third party's interest in a consolidated joint venture.

/s/ PricewaterhouseCoopers LLC
PricewaterhouseCoopers LLP
McLean, Virginia
April 27, 2004, except for Note 1A, as to which the date is August 6, 2004

W. R. GRACE & CO. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)	THREE MONTHS EN MARCH 31,	
In millions, except per share amounts	2004	20
Net sales	$ 518.5	$ 44
Cost of goods sold, exclusive of depreciation and amortization shown separately below	331.7	29
Selling, general and administrative expenses, exclusive of net pension expense shown separately below	102.2	9
Depreciation and amortization	27.2	2
Research and development expenses	12.7	1
Net pension expense	12.3	1
Interest expense and related financing costs	3.9	
Other expense (income)	(3.2)	(
Provision for environmental remediation	--	
	486.8	44
Income before Chapter 11 expenses, income taxes, and minority interest	31.7	
Chapter 11 expenses, net	(4.5)	(
Provision for income taxes	(10.9)	(
Minority interest in consolidated entities	(0.5)	(
NET INCOME (LOSS)	$ 15.8	$ (
BASIC EARNINGS (LOSS) PER COMMON SHARE:		
Net income (loss)	$ 0.24	$ (0
Average number of basic shares	65.6	6
DILUTED EARNINGS (LOSS) PER COMMON SHARE:		
Net income (loss)	$ 0.24	$ (0
Average number of diluted shares	65.8	6

The Notes to Consolidated Financial Statements
are an integral part of these statements.

W. R. GRACE & CO. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)	THREE MONTHS ENDED MARCH 31,	
In millions	2004	2003

OPERATING ACTIVITIES		
Income before Chapter 11 expenses, income taxes, and minority interest	$ 31.7	$ 3.7
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	27.2	24.7
Interest accrued on pre-petition debt subject to compromise	2.7	2.9
Loss on sales of investments and disposals of assets	0.2	0.3
Provision for environmental remediation	--	2.0
Income from life insurance policies, net	(1.5)	(3.1)
Changes in assets and liabilities, excluding effect of businesses acquired/divested and foreign currency translation:		
Working capital items	(33.2)	(17.9)
Contributions to defined benefit pension plans	(2.4)	(1.1)
Contributions to postretirement benefit plans	(2.6)	(3.1)
Expenditures for asbestos-related litigation	(1.9)	(2.3)
Proceeds from asbestos-related insurance	1.6	1.1
Expenditures for environmental remediation	(2.9)	(3.1)
Expenditures for retained obligations of divested businesses.	(0.4)	--
Pension expense and other non-cash items	14.5	13.7
NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE INCOME TAXES AND CHAPTER 11 EXPENSES	33.0	17.8
Chapter 11 expenses paid, net	(2.0)	(3.8)
Income taxes paid, net of refunds	(10.3)	(4.3)
NET CASH PROVIDED BY OPERATING ACTIVITIES	20.7	9.7
INVESTING ACTIVITIES		
Capital expenditures	(9.1)	(18.0)
Investment in life insurance policies	(4.6)	(4.9)
Proceeds from life insurance policies	5.3	3.6
Proceeds from sales of investments and disposals of assets	0.1	0.7
NET CASH USED FOR INVESTING ACTIVITIES	(8.3)	(18.6)
FINANCING ACTIVITIES		
Net change in loans secured by cash value of life insurance policies	(1.3)	(0.9)
Borrowings under credit facilities, net of repayments	8.9	(0.6)
Borrowings under debtor-in-possession facility, net of fees	(0.5)	(2.2)
Repayments of borrowings under debtor-in-possession facility	--	--
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	7.1	(3.7)
Effect of currency exchange rate changes on cash and cash equivalents.	(3.4)	4.4
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16.1	(8.2)
Cash and cash equivalents, beginning of period	309.2	283.6
Cash and cash equivalents, end of period	$325.3	$275.4

The Notes to Consolidated Financial Statements are an integral part of these statements.

W. R. GRACE & CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

In millions, except par value and shares	(RESTATED) MARCH 31, 2004	(RESTATE DECEMBER 2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 325.3	$ 309.
Accounts and other receivables, net	353.8	347.
Inventories	226.2	214.
Deferred income taxes	29.4	29.
Other current assets	27.4	27.
TOTAL CURRENT ASSETS	962.1	928.
Properties and equipment, net of accumulated depreciation and amortization of $1,226.2 (2003 - $1,216.9)	635.1	656.
Goodwill	84.2	85.
Cash value of life insurance policies, net of policy loans	92.9	90.
Deferred income taxes	591.8	587.
Asbestos-related insurance expected to be realized after one year	267.8	269.
Other assets	257.6	256.
TOTAL ASSETS	$2,891.5	$2,874.
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
LIABILITIES NOT SUBJECT TO COMPROMISE		
CURRENT LIABILITIES		
Debt payable within one year	$ 15.9	$ 6.
Accounts payable	110.1	101.
Income taxes payable	19.9	16.
Other current liabilities	111.2	129.
TOTAL CURRENT LIABILITIES	257.1	254.
Deferred income taxes	35.1	35.
Other liabilities	304.4	296.
TOTAL LIABILITIES NOT SUBJECT TO COMPROMISE	596.6	585.
Liabilities Subject to Compromise - Note 2	2,447.7	2,452.
TOTAL LIABILITIES	3,044.3	3,038.
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT)		
Common stock issued, par value $0.01; 300,000,000 shares authorized; outstanding: 2004 - 65,616,330 (2003 - 65,558,510)	0.8	0.
Paid-in capital	431.6	432.
Accumulated deficit	(155.1)	(170.
Treasury stock, at cost: shares: 2004 - 11,363,430 (2003 - 11,421,250)	(135.2)	(135.
Accumulated other comprehensive loss	(294.9)	(289.
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(152.8)	(163.

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$2,891.5	$2,874.

The Notes to Consolidated Financial Statements
are an integral part of these statements.

W. R. GRACE & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT) (UNAUDITED)

IN MILLIONS	Common Stock and Paid-in Capital	Accumulated Deficit	Treasury Stock	Accum Oth Compre Lo
BALANCE, DECEMBER 31, 2003, AS RESTATED	$432.9	$(170.9)	$(135.9)	$(
Net income	--	15.8	--	
Stock plan activity	(0.5)	--	0.7	
Other comprehensive (loss) income	--	--	--	
BALANCE, MARCH 31, 2004, AS RESTATED ..	$432.4	$(155.1)	$(135.2)	$(

W. R. GRACE & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

In millions	
NET INCOME (LOSS)...	$
OTHER COMPREHENSIVE (LOSS) INCOME:	
Foreign currency translation adjustments...	
COMPREHENSIVE INCOME	$

The Notes to Consolidated Financial Statements
are an integral part of these statements.

W. R. GRACE & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

W. R. Grace & Co., through its subsidiaries, is engaged in specialty chemicals and specialty materials businesses on a worldwide basis. These businesses consist of catalyst and silica products ("Davison Chemicals") and construction chemicals, building materials and sealants and coatings ("Performance Chemicals").

W. R. Grace & Co. conducts substantially all of its business through a direct, wholly owned subsidiary, W. R. Grace & Co.-Conn. ("Grace-Conn."). Grace-Conn. owns substantially all of the assets, properties and rights of W. R. Grace & Co. on a consolidated basis, either directly or through subsidiaries.

As used in these notes, the term "Company" refers to W. R. Grace & Co. The term "Grace" refers to the Company and/or one or more of its subsidiaries and, in certain cases, their respective predecessors.

VOLUNTARY BANKRUPTCY FILING: In response to a sharply increasing number of asbestos-related bodily injury claims, on April 2, 2001 (the "Filing Date"), W. R. Grace & Co. and 61 of its United States subsidiaries and affiliates, including Grace-Conn. (collectively, the "Debtors"), filed voluntary petitions for reorganization (the "Filing") under Chapter 11 of the United States Bankruptcy Code ("Chapter 11" or the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The cases were consolidated and are being jointly administered under case number 01-01139 (the "Chapter 11 Cases"). Grace's non-U.S. subsidiaries and certain of its U.S. subsidiaries were not included in the Filing.

During 2000 and the first quarter of 2001, Grace experienced several adverse developments in its asbestos-related litigation, including: a significant increase in bodily injury claims, higher than expected costs to resolve bodily injury and certain property damage claims, and class action lawsuits alleging damages from a former attic insulation product. (These claims are discussed in more detail in Note 3 to the Consolidated Financial Statements.) After a thorough review of these developments, the Board of Directors of Grace concluded on April 2, 2001 that a federal court-supervised Chapter 11 process provided the best forum available to achieve predictability and fairness in the claims settlement process.

By filing under Chapter 11, Grace expects to be able to both obtain a comprehensive resolution of the claims against it and preserve the inherent value of its businesses. Under Chapter 11, the Debtors expect to continue to operate their businesses as debtors-in-possession under court protection from their creditors and claimants, while using the Chapter 11 process to develop and implement a plan for addressing the asbestos-related claims against them.

Consequence of Filing - As a consequence of the Filing, pending litigation against the Debtors for pre-petition matters is generally stayed (subject to certain exceptions in the case of governmental authorities), and no party may take action to realize its pre-petition claims except pursuant to an order of the Bankruptcy Court.

The Debtors intend to address all of their pending and future asbestos-related claims and all other pre-petition claims in a plan of reorganization. Such a plan of reorganization may include the establishment of a trust through which all pending and future asbestos-related claims would be channeled for resolution. However, it is currently impossible to predict with any degree of certainty the amount that would be required to be contributed to the trust, how the trust would be funded, how other pre-petition claims would be treated or what impact any reorganization plan may have on the shares of common stock of the Company. The interests of the Company's shareholders could be substantially diluted or cancelled under a plan of reorganization. The value of Grace common stock following a plan of reorganization, and the extent of any recovery by non-asbestos-related creditors, will depend principally on the ultimate value assigned to Grace's asbestos-related claims, which will be addressed through the Bankruptcy Court proceedings. The formulation and implementation of the plan of reorganization is expected to take a significant period of time.

Since the Filing, all motions necessary to conduct normal business activities have been approved by the Bankruptcy Court.

Status of Chapter 11 Proceedings - As provided by the Bankruptcy Code, the Debtors had the exclusive right to propose a plan of reorganization for a 120-day period following the Filing Date. The Debtors have

received extensions of their exclusivity period during which to file a plan of reorganization through February 1, 2004, and extensions of the Debtors' exclusive right to solicit acceptances of a reorganization plan through April 1, 2004. A motion is pending before the Bankruptcy Court to further extend these exclusivity periods.

Three creditors' committees, two representing asbestos claimants and the third representing other unsecured creditors, and a committee representing shareholders have been appointed in the Chapter 11 Cases. These committees will have the right to be heard on all matters that come before the Bankruptcy Court and, together with a legal representative of future asbestos claimants (whom Grace expects to be appointed by the Bankruptcy Court in the future), are likely to play important roles in the Chapter 11 Cases. The Debtors are required to bear certain costs and expenses of the committees and of the future asbestos claimants' representative, including those of their counsel and financial advisors.

The Debtors' Chapter 11 cases have been assigned to Judge Alfred M. Wolin, a senior federal judge who sits in Newark, New Jersey. Judge Wolin is presiding over asbestos bodily injury matters and the fraudulent conveyance litigation described below. He has assigned the Debtors' other bankruptcy matters to Judge Judith Fitzgerald, a U.S. bankruptcy judge from the Western District of Pennsylvania, sitting in Wilmington, Delaware.

Claims Filings - The Bankruptcy Court established a bar date of March 31, 2003 for claims of general unsecured creditors, asbestos-related property damage claims and medical monitoring claims related to asbestos. The bar date did not apply to asbestos-related bodily injury claims or claims related to Zonolite(R) attic insulation ("ZAI"), which will be dealt with separately.

Approximately 15,000 proofs of claim were filed by the bar date. Of these claims, approximately 10,000 were non-asbestos related, approximately 4,000 were for asbestos-related property damage, and approximately 1,000 were for medical monitoring. In addition, approximately 450 proofs of claim were filed after the bar date. The discussion below refers to claims filed before the bar date.

Approximately 7,000 of the 10,000 non-asbestos related claims involve claims by employees or former employees for future retirement benefits such as pension and retiree medical coverage. Grace views most of these claims as contingent and does not plan to address them until a later date in the Chapter 11 proceeding. The other non-asbestos related claims include claims for payment for goods and services; taxes; product warranties; principal plus interest under pre-petition credit facilities; amounts due under leases; leases and other executory contracts rejected in the Bankruptcy Court; environmental remediation; indemnification or contribution from actual or potential co-defendants in asbestos-related and other litigation; pending non-asbestos-related litigation; and non-asbestos related personal injury.

The Debtors' initial analysis indicated that many claims are duplicates, represent the same claim filed against more than one of the Debtors, lack any supporting documentation, or provide insufficient supporting documentation. As of March 31, 2004, the Debtors had filed with the Bankruptcy Court approximately 1,100 objections with respect to such claims, most of which were non-substantive (duplicates, no supporting documentation, late filed claims, etc.). The Debtors expect to file a substantial number of additional objections, most of which will be substantive, as analysis and evaluation of the claims progresses. However, based on its initial claims analysis and other available information, Grace increased its estimated liability for environmental remediation and asbestos-related litigation as discussed in Notes 3 and 11. No other changes to Filing Date liabilities are deemed warranted at this time.

The medical monitoring claims were made by individuals who allege exposure to asbestos through Grace's products or operations. These claims, if sustained, would require Grace to fund ongoing health monitoring costs for qualified claimants. However, based on the number and expected cost of such claims, Grace does not believe such claims will have a material effect on its Consolidated Financial Statements. No specific liability has been established for these claims.

Grace believes that its recorded liabilities represent a reasonable estimate of the ultimate allowable amount for claims that are not in dispute or have been submitted with sufficient information to both evaluate merit and estimate the cost of the claim. However, because of the uncertainties of the Chapter 11 and litigation process, the in-progress state of Grace's investigation of submitted claims, and the lack of documentation in support of many claims, such recorded liabilities may prove to be insufficient to satisfy all of such claims. As claims are resolved, or where better information becomes available and is

evaluated, Grace will make adjustments to the liabilities recorded on its financial statements as appropriate. Any such adjustments could be material to its consolidated financial position and results of operations.

Litigation Proceedings in Bankruptcy Court - In July 2002, the Bankruptcy Court approved special counsel to represent, at the Debtors' expense, the ZAI claimants in a proceeding to determine certain threshold scientific issues regarding ZAI. The Debtors expect the Bankruptcy Court to establish a schedule for hearing pending motions following a status conference in May 2004. (See Note 3 for background information.)

In September 2000, Grace was named in a purported class action lawsuit filed in California Superior Court for the County of San Francisco, alleging that the 1996 reorganization involving a predecessor of Grace and Fresenius Medical Care Holdings, Inc. ("Fresenius") and the 1998 reorganization involving a predecessor of Grace and Sealed Air Corporation ("Sealed Air") were fraudulent transfers. The Bankruptcy Court authorized the Official Committee of Asbestos Personal Injury Claimants and the Official Committee of Asbestos Property Damage Claimants to proceed with claims against Fresenius and Sealed Air on behalf of the Debtors' estates.

On November 29, 2002, Sealed Air and Fresenius each announced that they had reached agreements in principle with such Committees to settle asbestos and fraudulent conveyance claims related to such transactions. Under the terms of the Fresenius settlement, as subsequently revised and subject to certain conditions, Fresenius would contribute $115.0 million to the Debtors' estate as directed by the Bankruptcy Court upon confirmation of the Debtors' plan of reorganization. In July 2003, the Fresenius settlement was approved by the Bankruptcy Court. Under the terms of the proposed Sealed Air settlement, Sealed Air would make a payment of $512.5 million (plus interest at 5.5% per annum, commencing on December 21, 2002) and nine million shares of Sealed Air common stock (valued at $447.6 million as of March 31, 2004), as directed by the Bankruptcy Court upon confirmation of the Debtors' plan of reorganization. The Sealed Air settlement has not been agreed to by the Debtors and remains subject to the approval of the Bankruptcy Court and the fulfillment of specified conditions. The Debtors are unable to predict how these settlements may ultimately affect their plan of reorganization.

Impact on Debt Capital - All of the Debtors' pre-petition debt is in default due to the Filing. The accompanying Consolidated Balance Sheet as of March 31, 2004 reflects the classification of the Debtors' pre-petition debt within "liabilities subject to compromise."

The Debtors have entered into a debtor-in-possession post-petition loan and security agreement with Bank of America, N.A. (the "DIP facility") in the aggregate amount of $250 million. The term of the DIP facility expires on April 1, 2006.

Accounting Impact - The accompanying Consolidated Financial Statements have been prepared in accordance with Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," promulgated by the American Institute of Certified Public Accountants. SOP 90-7 requires that financial statements of debtors-in-possession be prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Filing, the realization of certain of Debtors' assets and the liquidation of certain of Debtors' liabilities are subject to significant uncertainty. While operating as debtors-in-possession, the Debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the Consolidated Financial Statements. Further, a plan of reorganization could materially change the amounts and classifications reported in the Consolidated Financial Statements, which do not currently give effect to any adjustments to the carrying value or classification of assets or liabilities that might be necessary as a consequence of a plan of reorganization.

Pursuant to SOP 90-7, Grace's pre-petition liabilities that are subject to compromise are required to be reported separately on the balance sheet at an estimate of the amount that will ultimately be allowed by the Bankruptcy Court. As of March 31, 2004, such pre-petition liabilities include fixed obligations (such as debt and contractual commitments), as well as estimates of costs related to contingent liabilities (such as asbestos-related litigation, environmental remediation, and other claims). The recorded amounts of such liabilities generally reflect accounting measurements as of the Filing Date, adjusted as warranted for changes in facts and circumstances, new information obtained in the claims review process, and/or rulings under Grace's Chapter 11 proceedings subsequent to the Filing. (See Note 2 to the Consolidated Financial Statements for detail of the

liabilities subject to compromise.) Obligations of Grace subsidiaries not covered by the Filing continue to be classified on the Consolidated Balance

Sheets based upon maturity dates or the expected dates of payment. SOP 90-7 also requires separate reporting of certain expenses, realized gains and losses, and provisions for losses related to the Filing as reorganization items.

BASIS OF PRESENTATION: The interim Consolidated Financial Statements presented herein are unaudited and should be read in conjunction with the Consolidated Financial Statements presented in the Company's 2003 Annual Report on Form 10-K. Such interim Consolidated Financial Statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented; all such adjustments are of a normal recurring nature. Potential accounting adjustments discovered during normal reporting and accounting processes are evaluated on the basis of materiality, both individually and in the aggregate, and are recorded in the accounting period discovered, unless a restatement of a prior period is necessary. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the three-month interim period ended March 31, 2004 are not necessarily indicative of the results of operations for the year ending December 31, 2004.

RECLASSIFICATIONS: Certain amounts in prior years' Consolidated Financial Statements have been reclassified to conform to the 2004 presentation.

EFFECT OF NEW ACCOUNTING STANDARDS: In December 2003, the Financial Accounting Standards Board ("FASB") revised Statement of Financial Accounting Standards ("SFAS") No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," to require additional disclosure about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit plans and other postretirement plans. Grace adopted the provisions of SFAS No. 132 in December 2003. (See Note 12.)

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). Grace adopted the provisions of FIN 46 in 2002. The adoption of FIN 46 required Grace to consolidate Advanced Refining Technologies LLC, a joint venture between Grace and Chevron Products Company. The impact of this consolidation did not result in a material change to Grace's Consolidated Financial Statements.

STOCK INCENTIVE PLANS: SFAS No. 123 permits the Company to follow the measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and not recognize compensation expense for its stock-based incentive plans. Had compensation cost for the Company's stock-based incentive compensation plans been determined based on the fair value at the grant dates of awards under those plans, consistent with the fair value methodology prescribed by SFAS No. 123, the Company's net income (loss) and related earnings (loss) per share for the three-month periods ended March 31, 2004 and 2003 would have been reduced to the pro forma amounts indicated below:

PRO FORMA EARNINGS UNDER SFAS NO. 123 (In millions, except per share amounts)	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Net income (loss), as reported	$ 15.8	$ (2.3)
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.........	(0.1)	(0.4)

Pro forma net income (loss) (1)	$ 15.7	$ (2.7)
Basic earnings (loss) per share:		
As reported.....................................	$ 0.24	$ (0.04)
Pro forma net income (loss) (1)	0.24	(0.04)
Diluted earnings (loss) per share:		
As reported.....................................	$ 0.24	$ (0.04)
Pro forma net income (loss) (1)	0.24	(0.04)

(1) Due to Grace's Chapter 11 Filing, these pro forma amounts may not be indicative of future income (loss) and earnings (loss) per share.

To determine compensation cost under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model. There were no option grants in the first quarter of 2004 and the year ended 2003.

USE OF ESTIMATES: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the assets and liabilities reported at the date of the Consolidated Financial Statements, and the revenues and expenses reported for the periods presented. Actual amounts could differ from those estimates. Changes in estimates are recorded in the period identified. Grace's accounting measurements that are most affected by management's estimates of future events are:

- Contingent liabilities such as asbestos-related matters (see Note 3), environmental remediation (see Note 11), income taxes (see Note 11), and retained obligations of divested businesses.
- Pension and postretirement liabilities that depend on assumptions regarding discount rates and/or total returns on invested funds.
- Depreciation and amortization periods for long-lived assets, including property and equipment, intangible, and other assets.
- Realization values of various assets such as net deferred tax assets, trade receivables, inventories, insurance receivables, income taxes, and goodwill.

The accuracy of these and other estimates may also be materially affected by uncertainties arising under the Chapter 11 Cases.

1A. RESTATEMENT

The Company's financial statements as of December 31, 2003, have been restated to correct the U.S. dollar translation of a third party's interest in a small consolidated joint venture. Due to a currency conversion error, the third party interest was mistakenly calculated at $20.0 million instead of $200,000, a condition that was discovered as part of Grace's second quarter 2004 financial review. The effect of this non-cash correction to Grace's December 31, 2003 balance sheet was to increase shareholders' equity by $19.8 million and to decrease liabilities by the same amount. The effect of the restatement on the accompanying financial statements is as follows:

W. R. GRACE & CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(In millions)	MARCH 31, 2004		DECEMBER 31, 2003	
	As Previously Reported	AS RESTATED	As Previously Reported	AS RESTATED
Other current liabilities	$ 131.0	$111.2	$ 149.0	$ 129.2
Accumulated other comprehensive loss..........................	(314.7)	(294.9)	(309.7)	(289.9)

The restatement has no effect on the Consolidated Statements of Operations, of Cash Flows, or of Comprehensive Income for the three months ended March 31, 2004 and 2003. The restatement does not affect the financial position or results of operations of Grace's operating segments as previously reported.

2. CHAPTER 11 RELATED FINANCIAL INFORMATION

As a result of the Filing, Grace's Consolidated Balance Sheets separately identify the liabilities that are "subject to compromise" as a result of the Chapter 11 proceedings. In Grace's case, "liabilities subject to compromise" represent pre-petition liabilities as determined under U.S. generally accepted accounting principles. Changes to the recorded amount of such liabilities will be based on developments in the Chapter 11 Cases and management's assessment of the claim amounts that will ultimately be allowed by the Bankruptcy Court. Changes to pre-petition liabilities subsequent to the Filing Date reflect: 1) cash payments under approved court orders; 2) the accrual of interest on pre-petition debt at the pre-petition contractual rate; 3) accruals for employee-related programs; and 4) changes in estimates related to pre-petition contingent liabilities.

Components of liabilities subject to compromise are as follows:

(In millions) (Unaudited)	MARCH 31, 2004	DECEMBER 31, 2003
Debt, pre-petition plus accrued interest.........	$ 555.2	$ 552.7
Asbestos-related liability	990.3	992.3
Income taxes....................................	218.6	217.9
Environmental remediation	329.5	332.4
Postretirement benefits other than pension.......	131.2	134.3
Special pension arrangements....................	69.9	69.5
Retained obligations of divested businesses......	56.6	57.0
Accounts payable	31.6	31.9
Other accrued liabilities	64.8	64.3
TOTAL LIABILITIES SUBJECT TO COMPROMISE	$ 2,447.7	$ 2,452.3

Set forth below is a reconciliation of the changes in pre-filing date liability balances for the period from the Filing Date through March 31, 2004.

(In millions) (Unaudited)	Cumulative Since Filing
Balance, Filing Date.......................................	$ 2,366.0
Cash disbursements and/or reclassifications under Bankruptcy Court orders:	
Freight and distribution order........................	(5.7)
Trade accounts payable order..........................	(9.1)
Other court orders including employee wages and benefits, sales and use tax, and customer programs..	(196.2)
Expense/(income) items:	
Interest on pre-petition debt...........................	49.4
Employee-related accruals...............................	11.5
Change in estimate of asbestos-related property damage contingencies..........................	30.0
Change in estimate of environmental contingencies.........	219.0
Change in estimate of income tax contingencies............	8.5
Balance sheet reclassifications...........................	(25.7)
Balance, end of period....................................	$ 2,447.7

Additional liabilities subject to compromise may arise due to the rejection of executory contracts or unexpired leases, or as a result of the allowance of contingent or disputed claims.

The Debtors' Chapter 11 expenses for each of the three-month periods ended March 31, 2004 and March 31, 2003 consisted of:

(In millions)	THREE MONTHS ENDED MARCH 31, 2004	2003
Legal and financial advisory fees	$ 4.8	$ 2.8
Interest income	(0.3)	(0.1)
Chapter 11 expenses, net..........................	$ 4.5	$ 2.7

Pursuant to SOP 90-7, interest income earned on the Debtors' cash balances must be offset against Chapter 11 expenses.

Condensed financial information of the Debtors is presented below:

W. R. GRACE & CO. - CHAPTER 11 FILING ENTITIES DEBTOR-IN-POSSESSION STATEMENTS OF OPERATIONS (In millions) (Unaudited)	THREE MONTHS ENDED MARCH 31, 2004	2003
Net sales, including intercompany	$ 269.4	$ 225.7
Cost of goods sold, including intercompany, exclusive of depreciation and amortization shown separately below..	194.4	158.5
Selling, general and administrative expenses, exclusive of net pension expense shown separately		

below	61.6	56.8
Research and development expenses	8.6	10.9
Depreciation and amortization	14.5	15.5
Net pension expense	11.0	12.3
Interest expense and related financing costs	3.8	4.2
Other expense (income)	(9.3)	(17.0)
Provision for environmental remediation	--	2.0
	284.6	243.2
Loss before Chapter 11 expenses, income taxes, and equity in net income of non-filing entities	(15.2)	(17.5)
Chapter 11 expenses, net	(4.5)	(2.7)
Benefit from income taxes	2.5	1.8
Loss before equity in net income of non-filing entities	(17.2)	(18.4)
Equity in net income of non-filing entities	33.0	16.1
NET INCOME (LOSS)	$ 15.8	$ (2.3)

W. R. GRACE & CO. - CHAPTER 11
FILING ENTITIES DEBTOR-IN-POSSESSION
CONDENSED STATEMENTS OF CASH FLOWS
(In millions) (Unaudited)

	THREE MONTHS ENDED MARCH 31, 2004	2003
OPERATING ACTIVITIES		
Loss before Chapter 11 expenses, income taxes, and equity in net income of non-filing entities	$ (15.2)	$ (17.5)
Reconciliation to net cash provided by (used for) operating activities:		
Non-cash items, net	15.5	17.0
Contributions to defined benefit pension plans	(1.1)	(3.1)
Changes in other assets and liabilities, excluding the effect of businesses acquired/divested	(8.6)	(13.5)
NET CASH USED FOR OPERATING ACTIVITIES	(9.4)	(17.1)
NET CASH USED FOR INVESTING ACTIVITIES	(6.0)	(15.3)
NET CASH USED FOR FINANCING ACTIVITIES	(1.8)	(3.1)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(17.2)	(35.5)
Cash and cash equivalents, beginning of period	120.5	56.8
Cash and cash equivalents, end of period	$ 103.3	$ 21.3

W. R. GRACE & CO. - CHAPTER 11 FILING ENTITIES DEBTOR-IN-POSSESSION BALANCE SHEETS (In millions) (Unaudited)	(RESTATED) MARCH 31, 2004	(RESTATED) DECEMBER 31, 2003

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 103.3	$ 120.5
Accounts and other receivables, net	114.1	105.6
Receivables from non-filing entities, net.......	35.5	46.2
Inventories.....................................	85.6	81.2
Other current assets............................	45.2	47.9
TOTAL CURRENT ASSETS............................	383.7	401.4
Properties and equipment, net...................	374.3	383.9
Cash value of life insurance policies, net of policy loans................................	92.9	90.8
Deferred income taxes	592.6	587.9
Asbestos-related insurance expected to be realized after one year..............................	267.8	269.4
Loans receivable from non-filing entities, net.....................	444.1	448.0
Investment in non-filing entities...............	340.2	303.6
Other assets....................................	94.3	92.7
TOTAL ASSETS....................................	$ 2,589.9	$ 2,577.7

(In millions) (Unaudited)	(RESTATED) MARCH 31, 2004	(RESTATED) DECEMBER 31, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
LIABILITIES NOT SUBJECT TO COMPROMISE		
Current liabilities.............................	$ 94.8	$ 98.0
Other liabilities...............................	200.2	191.2
TOTAL LIABILITIES NOT SUBJECT TO COMPROMISE.....	295.0	289.2
LIABILITIES SUBJECT TO COMPROMISE..............	2,447.7	2,452.3
TOTAL LIABILITIES...............................	2,742.7	2,741.5
SHAREHOLDERS' EQUITY (DEFICIT)	(152.8)	(163.8)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$ 2,589.9	$ 2,577.7

In addition to Grace's financial reporting obligations as prescribed by the U.S. Securities and Exchange Commission ("SEC"), the Debtors are also required, under the rules and regulations of the Bankruptcy Code, to periodically file certain statements and schedules and a monthly operating report with the Bankruptcy Court. This information is available to the public through the Bankruptcy Court. This information is prepared in a format that may not be comparable to information in Grace's quarterly and annual financial statements as filed with the SEC. The monthly operating reports are not audited, do not purport to represent the financial position or results of operations of Grace on a consolidated basis, and should not be relied on for such purposes.

3. ASBESTOS-RELATED LITIGATION

Grace is a defendant in property damage and bodily injury lawsuits relating to previously sold asbestos-containing products. As of the Filing Date, Grace was a defendant in 65,656 asbestos-related lawsuits, 17 involving claims for property damage (one of which has since been dismissed), and the remainder involving 129,191 claims for bodily injury. Due to the Filing, holders of asbestos-related claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against the Debtors. Additional asbestos-related claims will be subject to the Chapter 11 process established by the Bankruptcy Court. Separate creditors' committees representing the interests of property damage and bodily injury claimants have been appointed in the Chapter 11 Cases. Grace's obligations with respect to present and

future claims will be determined through proceedings in the Bankruptcy Court and negotiations with each of the official committees appointed in the Chapter 11 Cases and a legal representative of future asbestos claimants, which negotiations are expected to provide the basis for a plan of reorganization.

PROPERTY DAMAGE LITIGATION

The plaintiffs in asbestos property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Each property damage case is unique in that the age, type, size and use of the building, and the difficulty of asbestos abatement, if necessary, vary from structure to structure. Information regarding product identification, the amount of product in the building, the age, type, size and use of the building, the legal status of the claimant, the jurisdictional history of prior cases and the court in which the case is pending has provided meaningful guidance as to the range of potential costs. Grace has recorded a liability for all outstanding property damage claims for which sufficient information is available to form a reasonable estimate of the cost to resolve such claims.

Out of 380 asbestos property damage cases filed prior to the Filing Date, 141 were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in nine cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in eight cases (one of which is on appeal) for a total of $86.1 million; 207 property damage cases were settled for a total of $696.8 million; and 16 cases remain outstanding (including the one on appeal). Of the 16 remaining cases, eight relate to ZAI and eight relate to a number of former asbestos-containing products (two of which also involve ZAI).

Approximately 4,000 additional property damage claims were filed prior to the March 31, 2003 claims bar date. Such claims were reviewed in detail by Grace, categorized into claims with sufficient information to be evaluated or claims that require additional information and, where sufficient information existed, the cost of resolution was estimated. (Approximately 170 claims contained insufficient information to permit an evaluation.) As a result of such review, and after considering the factors described above, Grace recorded a $30.0 million liability as its estimated cost of recovery for such additional claims in the fourth quarter of 2003.

The ZAI cases were filed as class action lawsuits in 2000 and 2001 on behalf of owners of homes containing ZAI. These cases seek damages and equitable relief, including the removal, replacement and/or disposal of all such insulation. The plaintiffs assert that this product is in millions of homes throughout the U.S. and that the cost of removal could be several thousand dollars per home. As a result of the Filing, these cases have been transferred to the U.S. Bankruptcy Court. Based on Grace's investigation of the claims described in these lawsuits, and testing and analysis of this product by Grace and others, Grace believes that the product was and continues to be safe for its intended purpose and poses little or no threat to human health. In July 2002, the Bankruptcy Court approved special counsel to represent, at the Debtors' expense, the ZAI claimants in a proceeding to determine certain threshold scientific issues regarding ZAI. The parties have completed discovery with respect to these threshold issues and have filed motions asking the Bankruptcy Court to resolve a number of important legal and factual issues regarding the ZAI claims. The Debtors expect the Bankruptcy Court to establish a schedule for hearing the pending motions following the next status conference in May 2004. At this time, Grace is not able to assess the extent of any possible liability related to this matter.

BODILY INJURY LITIGATION

Asbestos bodily injury claims are generally similar to each other (differing primarily in the type of asbestos-related illness allegedly suffered by the plaintiff). However, Grace's estimated liability for such claims has been influenced by numerous variables, including the solvency of other former producers of asbestos containing products, cross-claims by co-defendants, the rate at which new claims are filed, the jurisdiction in which the claims are filed, and the defense and disposition costs associated with these claims. Grace's bodily injury liability reflects management's estimate, as of the Filing Date (adjusted for post-Filing defense and claims administration costs), of the number and ultimate cost of present and future bodily injury claims expected to be asserted against Grace given demographic assumptions of possible exposure to asbestos containing products previously manufactured by Grace.

Cumulatively through the Filing Date, 16,354 asbestos bodily injury lawsuits involving approximately 35,720 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved) and

approximately 55,489 lawsuits involving approximately 163,698 claims were disposed of (through settlement and judgments) for a total of $645.6 million.

Approximately 1,000 claims for medical monitoring were filed against the Debtors prior to the bar date. These claims were made by individuals for medical monitoring, but not bodily injury, due to exposure to asbestos through Grace's products or operations. Based on the number and expected value of such claims, Grace does not believe such claims will have a material effect on the Consolidated Financial Statements.

ASBESTOS-RELATED LIABILITY

The total asbestos-related liability balances as of March 31, 2004 and December 31, 2003 were $990.3 million and $992.3 million, respectively. The decrease in the liability is due to the payment of ongoing post-Filing administrative costs relating to claims management and defense costs permitted by the Bankruptcy Court. The recorded liability is included in "liabilities subject to compromise."

The liability covers indemnity and defense costs for pending and projected future bodily injury claims as of the Filing Date, and pending property damage claims for which sufficient information was available, including the new property damage claims submitted prior to the March 31, 2003 bar date. Since the Filing, Grace is aware that bodily injury claims have continued to be filed against co-defendant companies, and at higher than historical rates. Grace believes that had it not filed for Chapter 11 reorganization, it likely would have received thousands more claims than it had previously projected. Grace has no basis for reliably adjusting its asbestos-related liability for this trend. It will adjust its recorded liability based on developments in the Chapter 11 Cases. Due to the Filing and the uncertainties of asbestos-related litigation, the actual amount of Grace's asbestos-related liability could differ materially from the recorded liability.

Recently, federal legislation has been proposed to address asbestos-related bodily injury litigation. In addition, several states have enacted or proposed legislation affecting asbestos-related bodily injury litigation. At this time, Grace cannot predict what impact any such legislation would have on Grace's asbestos-related bodily injury liability or its ultimate plan of reorganization.

ASBESTOS INSURANCE

Grace previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985. Grace has settled with and has been paid by all of its primary insurance carriers with respect to both property damage and bodily injury cases and claims. Grace has also settled with its excess insurance carriers that wrote policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. Grace believes that certain of these settlements may cover ZAI claims, as well as other property damage claims. In addition, Grace believes that additional coverage for ZAI claims may exist under excess insurance policies not subject to settlement agreements. Grace has settled with excess insurance carriers that wrote policies available for bodily injury claims in layers of insurance that Grace believes may be reached based on its current estimates.

The asbestos-related insurance asset represents amounts expected to be received from carriers under settlement agreements for defense and disposition costs to be paid by Grace. Estimated insurance reimbursements are based on the recorded amount of the asbestos-related liability and are only collectible as liabilities are satisfied. In the event that Grace's ultimate asbestos-related liability is determined to exceed recorded amounts, insurance exists to cover a portion of such incremental liability, but generally in a lower proportion than the currently recorded insurance receivable bears to the currently recorded liability.

4. OTHER EXPENSE (INCOME)

Components of other expense (income) are as follows:

OTHER EXPENSE (INCOME) (In millions)	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED MARCH 31, 2003
Investment income	$ (1.5)	$ (3.1)
Interest income	(0.9)	(1.2)
Net loss on sale of investments and disposals of assets	0.2	0.3
Tolling revenue	(0.3)	(0.5)
Foreign currency	1.4	1.3
Other miscellaneous income	(2.1)	(2.6)
Total other expense (income)	$ (3.2)	$ (5.8)

In March 2004, Grace began accounting for currency fluctuations on a Euro 293 million intercompany loan between Grace's subsidiaries in the United States and Germany as a component of operating results instead of as a component of other comprehensive income. The

change was prompted by new tax laws in Germany and Grace's cash flow planning for its Chapter 11 reorganization, which indicated that it is no longer reasonable to consider this loan as part of the permanent capital structure in Germany. The effect of the change in exchange rates related to this loan over the first quarter was $9.8 million unfavorable, $8.5 million of which is reflected in other comprehensive income and $1.3 million of which is reflected in the Consolidated Statements of Operations as part of other expense (income).

5. OTHER BALANCE SHEET ACCOUNTS

(In millions)	(RESTATED) MARCH 31, 2004	(Restated) December 31, 2003
ACCOUNTS AND OTHER RECEIVABLES, NET		
Trade receivables, less allowance of $4.8 (2003 - $4.6)	$ 339.1	$ 331.5
Other receivables, less allowances of $1.7 (2003 - $1.7)	14.7	16.0
	$ 353.8	$ 347.5
INVENTORIES		
Raw materials	$ 54.7	$ 53.5
In process	38.2	35.8
Finished products	145.9	134.0
General merchandise	28.0	29.4
Less: Adjustment of certain inventories to a last-in/first-out (LIFO) basis	(40.6)	(38.1)
	$ 226.2	$ 214.6
OTHER ASSETS		
Deferred pension costs	$ 118.6	$ 115.9
Deferred charges	46.8	45.7
Long-term receivables, less allowances of $0.7 (2003 - $0.7)	9.1	9.2
Patents, licenses and other intangible assets, net	62.7	65.1
Pension-unamortized prior service cost	19.8	19.8
Investments in unconsolidated affiliates and other	0.6	0.5
	$ 257.6	$ 256.2
OTHER CURRENT LIABILITIES		
Accrued compensation	$ 40.8	$ 44.8
Deferred tax liability	0.4	0.5

Customer volume rebates	16.7	28.1
Accrued commissions	6.1	9.8
Accrued reorganization fees	9.4	6.9
Other accrued liabilities	37.8	39.1
	$ 111.2	$ 129.2
OTHER LIABILITIES		
Pension-underfunded plans	$ 286.7	$ 278.5
Other accrued liabilities	17.7	17.5
	$ 304.4	$ 296.0

6. LIFE INSURANCE

Grace is the beneficiary of life insurance policies on certain current and former employees with a net cash surrender value of $92.9 million and $90.8 million at March 31, 2004 and December 31, 2003, respectively. The policies were acquired to fund various employee benefit programs and other long-term liabilities and are structured to provide cash flow (primarily tax-free) over an extended number of years. The following table summarizes activity in these policies for the three months ended March 31, 2004 and 2003, and components of the net cash value at March 31, 2004 and December 31, 2003:

LIFE INSURANCE - ACTIVITY SUMMARY (In millions)	THREE MONTHS ENDED MARCH 31,	
	2004	2003
Earnings on policy assets	$ 9.1	$ 11.8
Interest on policy loans	(7.6)	(8.7)
Premiums	--	--
Policy loan repayments	1.3	0.9
Net investing activity	(0.7)	1.3
Change in net cash value	$ 2.1	$ 5.3
Tax-free proceeds received	$ 5.3	$ 3.6
COMPONENTS OF NET CASH VALUE	MARCH 31, 2004	December 31, 2003
Gross cash value	$ 482.4	$ 478.5
Principal - policy loans	(373.9)	(365.3)
Accrued interest - policy loans	(15.6)	(22.4)
Net cash value	$ 92.9	$ 90.8
Insurance benefits in force	$ 2,208.5	$ 2,213.1

Grace's financial statements display income statement activity and balance sheet amounts on a net basis, reflecting the contractual interdependency of policy assets and liabilities. See Note 11 for tax contingencies regarding certain of these life insurance policies.

7. DEBT

COMPONENTS OF DEBT (In millions)	MARCH 31, 2004	December 31, 2003
DEBT PAYABLE WITHIN ONE YEAR		
DIP facility	$ --	$ --
Other short-term borrowings	15.9	6.8
	$ 15.9	$ 6.8
DEBT PAYABLE AFTER ONE YEAR		
DIP facility	$ --	$ --
DEBT SUBJECT TO COMPROMISE		
Bank borrowings	$ 500.0	$ 500.0
Other borrowings	3.5	3.7
Accrued interest	51.7	49.0
	$ 555.2	$ 552.7
Annualized weighted average interest rates on total debt	1.9%	2.1%

In April 2001, the Debtors entered into the DIP facility for a two-year term in the aggregate amount of $250 million. The DIP facility is secured by a priority lien on substantially all assets of the Debtors, and bears interest based on LIBOR. The Debtors have extended the term of the DIP facility through April 1, 2006. Grace had no outstanding borrowings under the DIP facility as of March 31, 2004; however, $25.4 million of standby letters of credit were issued and outstanding under the facility. The letters of credit, which reduce available funds under the facility, were issued mainly for trade-related matters such as performance bonds, and certain insurance and environmental matters.

8. SHAREHOLDERS' EQUITY (DEFICIT)

The Company is authorized to issue 300,000,000 shares of common stock. Of the common stock unissued on March 31, 2004, approximately 9,174,968 shares were reserved for issuance pursuant to stock option and other stock incentive plans. In the first three months of 2004 and the year ended December 31, 2003, Grace did not grant any stock options.

For additional information, see Notes 15 and 17 to the Consolidated Financial Statements in Grace's 2003 Form 10-K.

9. EARNINGS (LOSS) PER SHARE

The following table shows a reconciliation of the numerators and denominators used in calculating basic and diluted earnings (loss) per share.

EARNINGS (LOSS) PER SHARE	THREE MONTHS ENDED

(In millions, except per share amounts)	MARCH 31, 2004	MARCH 31, 2003
NUMERATORS		
Net income (loss)	$ 15.8	$ (2.3)
DENOMINATORS		
Weighted average common shares - basic calculation	65.6	65.5
Dilutive effect of employee stock options	0.2	--
Weighted average common shares diluted calculation	65.8	65.5
BASIC EARNINGS (LOSS) PER SHARE	$ 0.24	$ (0.04)
DILUTED EARNINGS (LOSS) PER SHARE	$ 0.24	$ (0.04)

As a result of the loss incurred during the three months ended March 31, 2003, employee compensation shares of approximately 500,000 were excluded from the diluted loss per share calculation because their effect would have been antidilutive.

10. COMPREHENSIVE (LOSS) INCOME

Grace's other comprehensive (loss) income consists entirely of foreign currency translation adjustments. The table below presents the pre-tax, tax and after tax amounts of Grace's other comprehensive (loss) income for the three months ended March 31, 2004 and 2003:

(In millions)	Pre-tax Amount	Tax Benefit	After Tax Amount
THREE MONTHS ENDED:			
March 31, 2004	$ (5.0)	$ --	$ (5.0)
March 31, 2003	$ 9.4	$ --	$ 9.4

The table below presents the components of Grace's accumulated other comprehensive loss at March 31, 2004 and December 31, 2003:

COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS (In millions)	(RESTATED) MARCH 31, 2004	(Restated) December 31, 2003
Foreign currency translation	$ (29.5)	$ (24.5)
Minimum pension liability	(265.4)	(265.4)
Accumulated other comprehensive loss	$ (294.9)	$ (289.9)

Grace is a global enterprise, which operates in over 40 countries with local currency generally deemed to be the functional currency for accounting purposes. The foreign currency translation amount represents the adjustment necessary to translate the balance sheets valued in local currencies to the U.S. dollar as of the end of each period presented. The decline in foreign currency translation at March 31, 2004 compared with

December 31, 2003 is due to the strengthening of the U.S. dollar against most other reporting currencies.

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11. COMMITMENTS AND CONTINGENT LIABILITIES

ASBESTOS-RELATED LITIGATION - SEE NOTE 3

ENVIRONMENTAL REMEDIATION

General Matters and Discussion

Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to the generation, storage, handling, discharge and disposition of hazardous wastes and other materials. Grace accrues for anticipated costs associated with investigative and remediation efforts where an assessment has indicated that a probable liability has been incurred and the cost can be reasonably estimated. These accruals do not take into account any discounting for the time value of money.

Grace's environmental liabilities are reassessed whenever circumstances become better defined or remediation efforts and their costs can be better estimated. These liabilities are evaluated based on currently available information, including the progress of remedial investigation at each site, the current status of discussions with regulatory authorities regarding the method and extent of remediation at each site, existing technology, prior experience in contaminated site remediation and the apportionment of costs among potentially responsible parties. Grace expects that the funding of environmental remediation activities will be affected by the Chapter 11 proceedings; any such effect could be material. Grace's environmental liabilities are included in "liabilities subject to compromise" as of March 31, 2004.

At March 31, 2004, Grace's estimated liability for environmental investigative and remediation costs totaled $329.5 million, compared with $332.4 million at December 31, 2003. This liability covers both vermiculite and non-vermiculite related matters. The amount is based on funding and/or remediation agreements in place and Grace's best estimate of its cost for sites not subject to a formal remediation plan.

Cash expenditures charged against previously established reserves for the three months ended March 31, 2004 and 2003 were $2.9 million and $3.1 million, respectively.

Vermiculite Related Matters

From the 1920's until 1990, Grace and previous owners conducted vermiculite mining and related activities near Libby, Montana. The vermiculite ore that was mined contained varying amounts of asbestos as a contaminant, almost all of which was removed during processing. Expanded vermiculite from Libby was used in products such as fireproofing, insulation and potting soil. In November 1999, Region 8 of the Environmental Protection Agency ("EPA") began an investigation into alleged excessive levels of asbestos-related disease in the Libby population related to these former mining activities. This investigation led the

EPA to undertake additional investigative activity and to carry out response actions in and around Libby. On March 30, 2001, the EPA filed a lawsuit in U.S. District Court for the District of Montana, Missoula Division (United States v. W. R. Grace & Company et al.) under the Comprehensive Environmental Response, Compensation and Liability Act for the recovery of costs allegedly incurred by the United States in response to the release or threatened release of asbestos in the Libby, Montana area relating to such former mining activities. These costs include cleaning and/or demolition of contaminated buildings, the excavation and removal of contaminated soil, health screening of Libby residents and former mine workers, and investigation and monitoring costs. In this action, the EPA also sought a declaration of Grace's liability that would be binding in future actions to recover further response costs.

In connection with its defense, Grace conducted its own investigation to determine whether the EPA's actions and cost claims were justified and reasonable. However, in December 2002, the District Court granted the United States' motion for partial summary judgment on a number of issues that limited Grace's ability to challenge the EPA's response actions. In January 2003, a trial was held on the remainder of the issues, which primarily involved the reasonableness and adequacy of documentation of the EPA's cost recovery claims through December 31, 2001. On August 28, 2003, the District Court issued a ruling in favor of the United States that requires Grace to reimburse the government for $54.5 million in costs expended through December 2001, and for all appropriate future costs to complete the clean-up. Grace has appealed the court's ruling.

As a result of such ruling and Grace's analysis of estimated remediation costs at vermiculite processing sites currently or formerly operated by Grace, Grace estimates its total liability for vermiculite-related

matters at March 31, 2004 at $181.0 million. Grace's estimate of expected costs is based on public comments regarding the EPA's spending plans, discussions of spending forecasts with EPA representatives, and analysis of other information made available from the EPA. The EPA's cost estimates have changed regularly and increased substantially over time. Consequently, Grace's estimate may change materially as more information becomes available. Grace's liability for this matter is included in "liabilities subject to compromise" as of March 31, 2004.

Non-Vermiculite Related Matters

At March 31, 2004 and December 31, 2003, Grace's estimated liability for remediation of sites not related to its former vermiculite mining and processing activities was $148.5 million and $151.4 million, respectively. This liability relates to Grace's current and former operations, including its share of liability for off-site disposal at facilities where it has been identified as a potentially responsible party. This liability also reflects Grace's evaluation of environmental-related claims submitted as part of the Chapter 11 process for which sufficient information was available. As Grace receives new information and continues its claims evaluation process, its estimated liability may change materially. Grace's liability for this matter is included in "liabilities subject to compromise" as of March 31, 2004.

Insurance Matters

Grace is a party to three environmental insurance coverage actions involving one primary and one excess insurance carrier regarding the applicability of the carriers' policies to Grace's environmental remediation costs. The outcome of such litigation, as well as the amounts of any recoveries that Grace may receive, is presently uncertain. Accordingly, Grace has not recorded a receivable with respect to such insurance coverage.

TAX MATTERS

Grace has received the examination report from the Internal Revenue Service (the "IRS") for tax periods 1993 through 1996 asserting, in the aggregate, approximately $114.0 million of proposed tax adjustments, including accrued interest. The most significant contested issue addressed in such report concerns corporate-owned life insurance ("COLI") policies and is discussed below. Other proposed IRS tax adjustments include Grace's tax position regarding research and development credits, the reporting of certain divestitures and other miscellaneous proposed adjustments. The tax audit for the 1993 through 1996 tax period was under the jurisdiction of the IRS Office of Appeals, where Grace filed a protest. The IRS Office of Appeals has returned the audit to the examination team for further review of the proposed adjustments as well as several affirmative tax claims raised by Grace. Grace's federal tax returns covering periods 1997 and forward are either under examination by the IRS or open for future examination. In addition, Grace will be required to report to state and local tax jurisdictions the additional taxable income (and the related accrued interest) resulting from IRS adjustments upon resolution of the Federal tax audits. Grace believes that the impact of probable tax return adjustments are adequately recognized as liabilities at March 31, 2004. Any cash payment as a result of such adjustment would be subject to Grace's Chapter 11 proceedings.

In 1988 and 1990, Grace acquired COLI policies on the lives of certain of its employees as part of a strategy to fund the cost of postretirement employee health care benefits and other long-term liabilities. COLI premiums have been funded in part by loans issued against the cash surrender value of the COLI policies. The IRS is challenging deductions of interest on loans secured by COLI policies for years prior to 1999. In 2000, Grace paid $21.2 million of tax and interest related to this issue for tax years 1990 through 1992. Subsequent to 1992, Grace deducted approximately $163.2 million in interest attributable to COLI policy loans. Although Grace continues to believe that the deductions were legitimate, the IRS has successfully challenged interest deductions claimed by other corporations with respect to broad-based COLI policies in three out of four litigated cases. Given the level of IRS success in COLI cases, Grace requested and was granted early referral to the IRS Office of Appeals for consideration of possible settlement alternatives of the COLI interest deduction issue.

On September 23, 2002, Grace filed a motion in its Chapter 11 proceeding requesting that the Bankruptcy Court authorize Grace to enter into a settlement agreement with the IRS with respect to Grace's COLI interest deductions. The tax years at issue are 1989 through 1998. Under the terms of the proposed settlement, the government would allow 20% of the aggregate amount of the COLI interest deductions and Grace would owe federal income tax and interest on the remaining 80%. Grace has accrued for the potential tax and interest liability related to the

disallowance of all COLI interest deductions and continues to accrue interest. On October 22, 2002, the Bankruptcy Court issued an order authorizing Grace to enter into settlement discussions with the IRS consistent with the aforementioned terms and further ordered that any final agreement would be subject to Bankruptcy Court approval. Grace has reached a tentative agreement with the IRS on such settlement and intends to submit it for Bankruptcy Court approval.

The IRS has assessed additional federal income tax withholding and Federal Insurance Contributions Act taxes plus interest and related penalties for calendar years 1993 through 1995 against a Grace subsidiary that formerly operated a temporary staffing business for nurses and other health care personnel. The assessments, aggregating $21.8 million, were made in connection with a meal and incidental expense per diem plan for traveling health care personnel that was in effect through 1999, the year in which Grace sold the business. The IRS contends that certain per diem reimbursements should have been treated as wages subject to employment taxes and federal income tax withholding. Grace contends that its per diem and expense allowance plans were in accordance with statutory and regulatory requirements, as well as other published guidance from the IRS. The IRS has issued additional assessments aggregating $40.1 million for the 1996 through 1998 tax periods. The statute of limitations has expired with respect to the 1999 tax year. Grace has a right to indemnification for approximately 36% of any tax liability (including interest thereon) for the period from July, 1996 through December, 1998 from its former partner in the business. The matter is currently pending in the United States Court of Claims. Grace is currently in discussions with the Department of Justice concerning possible settlement options. Grace does not expect the resolution of this matter to have significant adverse impact on its Consolidated Financial Statements.

PURCHASE COMMITMENTS

From time to time, Grace engages in purchase commitments in its various business activities, all of which are expected to be fulfilled with no material adverse consequences to Grace's operations or financial position.

GUARANTEES AND INDEMNIFICATION OBLIGATIONS

Grace is a party to many contracts containing guarantees and indemnification obligations. These contracts primarily consist of:

- Contracts providing for the sale of a former business unit or product line in which Grace has agreed to indemnify the buyer against liabilities arising prior to the closing of the transaction, including environmental liabilities. These liabilities are included in "liabilities subject to compromise" in the Consolidated Balance Sheets;

- Guarantees of real property lease obligations of third parties, typically arising out of (a) leases entered into by former subsidiaries of Grace, or (b) the assignment or sublease of a lease by Grace to a third party. These obligations are included in "liabilities subject to compromise" in the Consolidated Balance Sheets;

- Licenses of intellectual property by Grace to third parties in which Grace has agreed to indemnify the licensee against third party infringement claims;

- Contracts entered into with third party consultants, independent contractors, and other service providers in which Grace has agreed to indemnify such parties against certain liabilities in connection with their performance. Based on historical experience and the likelihood that such parties will ever make a claim against Grace, such indemnification obligations are immaterial; and

- Product warranties with respect to certain products sold to customers in the ordinary course of business. These warranties typically provide that product will conform to specifications. Grace generally does not establish a liability for product warranty based on a percentage of sales or other formula. Grace accrues a warranty liability on a transaction-specific basis depending on the individual facts and circumstances related to each sale. Both the liability and annual expense related to product warranties are immaterial to the Consolidated Financial Statements.

FINANCIAL ASSURANCES

At March 31, 2004, Grace had gross financial assurances issued and outstanding of $252.2 million, comprised of $136.8 million of gross surety bonds issued by various insurance companies and $115.4 million of standby letters of credit and other financial assurances issued by various banks. Of the standby letters of credit, $19.0 million act as collateral for surety bonds, thereby reducing Grace's overall obligations under its financial assurances to a net amount of $233.2 million. These financial assurances were established for a variety of purposes, including

insurance and environmental matters, asbestos settlements and appeals, trade-related commitments and other matters. Of the net amount of $233.2 million of financial assurances, approximately $12.2 million were issued by non-Debtor entities and $221.0 million were issued by the Debtors. Of the amounts issued by the Debtors, approximately $191.1 million were issued before the Filing Date, with the remaining $29.9 million being subsequent to the Filing, of which $25.4 million was issued under the DIP facility.

ACCOUNTING FOR CONTINGENCIES

Although the outcome of each of the matters discussed above cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under U.S. generally accepted accounting principles. As a result of the Filing, claims related to certain of the items discussed above will be addressed as part of Grace's Chapter 11 proceedings. Accruals recorded for such contingencies have been included in "liabilities subject to compromise" on the accompanying Consolidated Balance Sheets. The amounts of these liabilities as ultimately determined through the Chapter 11 proceedings could be materially different from amounts recorded by Grace at March 31, 2004.

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12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

Grace maintains defined benefit pension plans covering employees of certain units who meet age and service requirements. Benefits are generally based on final average salary and years of service. Grace funds its U.S. pension plans in accordance with U.S. federal laws and regulations. Non-U.S. pension plans are funded under a variety of methods, as required under local laws and customs.

Grace also provides, through nonqualified plans, supplemental pension benefits in excess of qualified plan limits imposed by Federal tax law. These plans cover officers and certain key employees and serve to increase the combined pension amount to the level which they otherwise would have received under the qualified plans in the absence of such limits. The unqualified plans are unfunded and Grace pays the costs of benefits as they are incurred.

Grace provides postretirement health care and life insurance benefits for retired employees of certain U.S. business units and certain divested units. The postretirement medical plan provides various levels of benefits to employees (depending on their dates of hire) who retire from Grace after age 55 with at least 10 years of service. These plans are unfunded, and Grace pays the costs of benefits under these plans as they are incurred. Grace applies SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires that the future costs of postretirement health care and life insurance benefits be accrued over the employees' years of service.

The components of net periodic benefit cost for the three months ended March 31, 2004 and 2003 are as follows:

COMPONENTS OF NET PERIODIC BENEFIT COST (In millions)	THREE MONTHS ENDED MARCH 31,			
	2004		2003	
	U.S.	OTHER	U.S.	Other
Service cost............................	$ 2.9	$ 0.2	$ 2.5	$ 0.2
Interest cost...........................	13.9	1.7	14.0	2.2
Expected return on plan assets...........	(12.6)	--	(11.0)	--
Amortization of prior service cost.......	1.4	(3.2)	1.4	(3.2)
Amortization of unrecognized actuarial loss.................................	4.6	0.7	4.7	1.0
NET PERIODIC BENEFIT COST................	$ 10.2	$ (0.6)	$ 11.6	$ 0.2

Grace previously disclosed in its financial statements for the year ended December 31, 2003 that it expected to contribute $40 million to its domestic qualified defined benefit pension plans in 2004, $33 million to satisfy minimum funding requirements under the Employee Retirement Income Security Act of 1974 ("ERISA") and $7 million to help fund the shortfall between Grace's U.S. qualified pension obligations and the market value of dedicated pension assets. In April 2004, a Federal law was passed that provides for a two-year modification to the regulatory framework that governs pension funding. Under the new law, the interest rate to be used to determine the level of underfunding in a defined benefit pension plan is based on interest rates on long-term corporate bonds instead of interest rates on 30-year U.S. Treasury bonds. As a result of the new law, Grace is required to contribute $44.5 million to its domestic qualified defined benefit pension plans for the 2004 plan year ($0.1 million of which is payable in 2004 and $44.4 million of which is payable by September 2005) to satisfy its minimum funding requirements under ERISA. Grace may seek to contribute more than the minimum amount in 2004 to more effectively manage its longer term funding obligations. Contributions to the U.S. qualified pension plans are subject to the

approval of the Bankruptcy Court. Grace expects to contribute approximately $4.4 million to its domestic nonqualified pension plans and approximately $12.0 million to its other postretirement plans in 2004.

Contributions to fund the postretirement health care and life insurance plans are discretionary, as the plans are not subject to any minimum regulatory funding requirements. For the three months ended March 31, 2004 and 2003, Grace has contributed $2.6 million and $3.1 million to the plan, respectively.

13. BUSINESS SEGMENT INFORMATION

Grace is a global producer of specialty chemicals and specialty materials. It generates revenues from two business segments: Davison Chemicals and Performance Chemicals. Davison Chemicals produces a variety of catalyst and silica products.

Performance Chemicals produces specialty construction chemicals, building materials and sealants and coatings. Intersegment sales, eliminated in consolidation, are not material. The table below presents information related to Grace's business segments for the three-month periods ended March 31, 2004 and 2003. Only those corporate expenses directly related to the segment are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

BUSINESS SEGMENT DATA (In millions)	THREE MONTHS ENDED MARCH 31, 2004	2003
NET SALES		
Davison Chemicals	$ 270.9	$ 239.1
Performance Chemicals	247.6	205.7
TOTAL	$ 518.5	$ 444.8
PRE-TAX OPERATING INCOME		
Davison Chemicals	$ 32.0	$ 20.3
Performance Chemicals	27.6	12.1
TOTAL	$ 59.6	$ 32.4

The table below presents information related to the geographic areas in which Grace operated for the three months ended March 31, 2004 and 2003.

GEOGRAPHIC AREA DATA (In millions)	THREE MONTHS ENDED MARCH 31, 2004	2003
NET SALES		
United States	$ 202.3	$ 188.6
Canada and Puerto Rico	22.9	15.6
Europe, other than Germany	165.2	134.7
Germany	28.2	20.1
Asia Pacific	72.7	61.4
Latin America	27.2	24.4
TOTAL	$ 518.5	$ 444.8

The pre-tax operating income for Grace's business segments for the three-month periods ended March 31, 2004 and 2003 is reconciled below to income before Chapter 11 expenses, income taxes, and minority interest presented in the accompanying Consolidated Statements of Operations.

RECONCILIATION OF BUSINESS SEGMENT DATA TO FINANCIAL STATEMENTS (In millions)	THREE MONTHS ENDED MARCH 31, 2004	2003
Pre-tax operating income - business segments	$ 59.6	$ 32.4

Minority interest	0.5	0.2
Loss on sale of investments and disposals of assets	(0.2)	(0.3)
Provision for environmental remediation	--	(2.0)
Interest expense and related financing costs	(3.9)	(4.2)
Corporate costs	(21.1)	(18.9)
Other, net	(3.2)	(3.5)
Income before Chapter 11 expenses, income taxes, and minority interest	$ 31.7	$ 3.7

Corporate costs include expenses of corporate headquarters functions incurred in support of core operations, such as corporate financial and legal services, human resources management, communications and regulatory affairs. This item also includes certain pension and postretirement benefits, including the amortization of deferred actuarial losses that are considered a core operating cost but not allocated to business segments.

ITEM 4. CONTROLS AND PROCEDURES

GENERAL STATEMENT OF RESPONSIBILITY

The management of Grace is responsible for the preparation, integrity and objectivity of the Consolidated Financial Statements and the other information included in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and accordingly include certain amounts that represent management's best estimates and judgments. Actual amounts could differ from those estimates. Management maintains internal controls to assist it in fulfilling its responsibility for financial reporting. These internal controls consist of the control environment, risk assessment, control activities, information and communication, and monitoring. A chartered Disclosure Committee oversees Grace's public financial reporting process and key managers are required to confirm their compliance with Grace's policies and internal controls. While no system of internal controls can ensure elimination of all errors and irregularities, Grace's internal controls, which are reviewed and modified in response to changing conditions, have been designed to provide reasonable assurance that assets are safeguarded, policies and procedures are followed, transactions are properly executed and reported, and appropriate disclosures are made. The concept of reasonable assurance is based on the recognition that there are limitations in all systems of internal control and that the costs of such systems should not exceed their benefits.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2004, Grace carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, Grace's Chief Executive Officer and Chief Financial Officer (the "Officers") concluded that the Company's disclosure controls and procedures were effective in ensuring that information required to be disclosed in the Company's periodic filings under the Exchange Act is accumulated and communicated to such Officers to allow timely decisions regarding required disclosures. However, in early August 2004, the Officers became aware of a mistake in Grace's measurement of the U.S. dollar translation of a third party's equity interest in a small foreign joint venture caused by a two-decimal-point error in the currency conversion factor. The joint venture has

2003 net sales of approximately $775,000, all of which were made to Grace affiliates, and owner's equity of approximately $400,000. The third party's equity interest was measured at $20 million instead of $200,000, which resulted in an overstatement of Grace's liabilities and an understatement of Grace's shareholders' equity by $19.8 million in Grace's December 31, 2003 and March 31, 2004 consolidated balance sheets. This noncash error was uncovered as part of Grace's financial review procedures for the quarter ended June 30, 2004. The error had no effect on originally reported net income/loss, per share amounts, net sales, operating income, or any other item in Grace's Consolidated Statements of Operations for the year ended December 31, 2003 or for the first quarter ended March 31, 2004. The error was communicated to Grace's Audit Committee and independent auditors when found.

Upon investigation, it was determined that Grace's validation and review procedures existing at both December 31, 2003 and March 31, 2004 related to the consolidation accounting process should have, but failed to, detect this computational error. As a result, such Officers now conclude that the Company's disclosure controls and procedures were effective except as they relate to the consolidation accounting process in operation at December 31, 2003 or at March 31, 2004. The Officers' believe that added validation and review procedures implemented during 2004, together with those existing before, when appropriately applied, are effective to identify errors of this nature. Grace's independent auditors have advised the Officers that the condition existing, prior to the implementation of added procedures in 2004, when combined with the relative magnitude of the identified error on the measurement of components of shareholders' equity, constituted, at the December and March balance sheet dates, a material weakness in disclosure controls and procedures.

Except for the changes in Grace's consolidation accounting procedures which now include added steps of validation and review, and for periodic enhancements to control processes and policies in response to changing business, organizational, legal and regulatory conditions, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. The following is a list of Exhibits filed as part of this Quarterly Report on Form 10-Q:

15 Accountants' Awareness Letter

31.1 Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

32 Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley

Act of 2002

(b) Reports on Form 8-K. The following reports on Form 8-K were filed during the first quarter of 2004:

January 29, 2004 - Press release announcing Grace's financial results for the quarter and full year ended December 31, 2003.

SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

W. R. GRACE & CO.
(Registrant)

Date: August 9, 2004

By /s/ Paul J. Norris
Paul J. Norris
Chairman and
Chief Executive Officer

Date: August 9, 2004

By /s/ Robert M. Tarola
Robert M. Tarola
Senior Vice President and
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT INDEX

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