W R GRACE & CO
Form 10-Q
November 05, 2010

Use these links to rapidly review the document
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2010

OR

o **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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at October 31, 2010**
Common Stock, $0.01 par value per share	73,078,925 shares

W. R. GRACE & CO. AND SUBSIDIARIES

Table of Contents

Unless the context otherwise indicates, in this Report the terms "Grace," "we," "us," "our" or "the company" mean W. R. Grace & Co. and/or its consolidated subsidiaries and affiliates. Unless otherwise indicated, the contents of websites mentioned in this report are not incorporated by reference or otherwise made a part of this Report. Grace®, the Grace® logo and, except as otherwise indicated, the other product names used in the text of this report are trademarks, service marks, and/or trade names of operating units of W. R. Grace & Co. or its affiliates and/or subsidiaries.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Review by Independent Registered Public Accounting Firm

With respect to the interim consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2010, PricewaterhouseCoopers LLP, the company's independent registered public accounting firm, has applied limited procedures in accordance with professional standards for a review of such information. Their report on the interim consolidated financial statements, which follows, states that they did not audit and they do not express an opinion on the unaudited interim financial statements. Accordingly, the degree of reliance on their report on the unaudited interim financial statements should be restricted in light of the limited nature of the review procedures applied. This report is not considered a "report" within the meaning of Sections 7 and 11 of the Securities Act of 1933, and, therefore, the independent accountants' liability under Section 11 does not extend to it.

Table of Contents

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 September 30, 2010, and the related consolidated statements of operations and comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2010 and 2009, and the consolidated statements of equity (deficit) and of cash flows for the nine-month periods ended September 30, 2010 and 2009. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the 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 the standards of the Public Company Accounting Oversight Board (United States), 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 interim consolidated financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Notes 1 and 2 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. Management's intentions with respect to this matter are also described in Notes 1 and 2. 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, 2009, and the related consolidated statements of operations, equity (deficit), comprehensive income (loss), and of cash flows for the year then ended (not presented herein), and in our report dated February 25, 2010, we expressed an unqualified opinion on those consolidated financial statements with an explanatory paragraph relating to the Company's ability to continue as a going concern.

PricewaterhouseCoopers LLP
McLean, Virginia
November 5, 2010

Table of Contents

W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Operations (unaudited)

(In millions, except per share amounts)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales	**$ 682.1**	$ 753.6	**$ 1,982.0**	$ 2,146.7
Cost of goods sold	**436.6**	491.1	**1,278.3**	1,470.6
Gross profit	**245.5**	262.5	**703.7**	676.1
Selling, general and administrative expenses	**123.9**	136.7	**376.2**	425.8
Restructuring expenses and related asset impairments	**5.7**	1.9	**9.1**	26.9
Gain on sales of product lines		(22.2)		(22.2)
Research and development expenses	**14.8**	16.6	**44.9**	52.8
Defined benefit pension expense	**19.1**	21.5	**57.3**	63.9
Interest expense and related financing costs	**10.2**	9.7	**31.1**	28.5
Provision for environmental remediation		0.4		1.1
Chapter 11 expenses, net of interest income	**3.6**	18.4	**14.4**	36.4
Equity in (earnings) losses of unconsolidated affiliates	**(1.7)**		**(13.0)**	0.6
Other (income) expense, net	**(2.1)**	5.1	**0.2**	10.6
Total costs and expenses	**173.5**	188.1	**520.2**	624.4
Income before income taxes	**72.0**	74.4	**183.5**	51.7
Provision for income taxes	**(17.1)**	(23.6)	**(20.9)**	(17.0)
Net income	**54.9**	50.8	**162.6**	34.7
Less: Net income attributable to noncontrolling interests		(6.4)	**(0.4)**	(9.9)
Net income attributable to W. R. Grace & Co. shareholders	**$ 54.9**	$ 44.4	**$ 162.2**	$ 24.8
Earnings Per Share Attributable to W. R. Grace & Co. Shareholders				
Basic earnings per share:				
Net income attributable to W. R. Grace & Co. shareholders	**$ 0.75**	$ 0.61	**$ 2.23**	$ 0.34
Weighted average number of basic shares	**72.8**	72.2	**72.7**	72.2
Diluted earnings per share:				
Net income attributable to W. R. Grace & Co. shareholders	**$ 0.74**	$ 0.61	**$ 2.17**	$ 0.34
Weighted average number of diluted shares	**74.3**	72.9	**74.6**	72.3

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

Table of Contents

W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

(In millions)

	Nine Months Ended September 30, 2010	2009
OPERATING ACTIVITIES		
Net income	**$ 162.6**	$ 34.7
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	**86.9**	84.5
Equity in (earnings) losses of unconsolidated affiliates	**(13.0)**	0.6
Provision for income taxes	**20.9**	17.0
Income taxes paid, net of refunds	**(21.8)**	(8.1)
Defined benefit pension expense	**57.3**	63.9
Payments under defined benefit pension arrangements	**(48.6)**	(42.5)
Changes in assets and liabilities, excluding effect of currency translation:		
Trade accounts receivable	**(48.0)**	31.8
Inventories	**(47.5)**	100.6
Accounts payable	**40.2**	(32.9)
Other accruals and non-cash items	**(22.9)**	(4.1)
Net cash provided by operating activities	**166.1**	245.5
INVESTING ACTIVITIES		
Capital expenditures	**(69.0)**	(53.6)
Transfer to restricted cash and cash equivalents as collateral for letter of credit facility	**(81.1)**	
Proceeds from termination of life insurance policies, net of investing activities		68.8
Proceeds from sales of investment securities and debt securities		17.7
Proceeds from sales of product lines		26.7
Other investing activities	**0.5**	5.9
Net cash provided by (used for) investing activities	**(149.6)**	65.5
FINANCING ACTIVITIES		
Dividends paid to noncontrolling interests in consolidated entities		(14.3)
Repayments under credit arrangements	**(0.4)**	(4.8)
Proceeds from exercise of stock options	**7.9**	0.6
Other financing activities	**1.3**	(1.4)
Net cash provided by (used for) financing activities	**8.8**	(19.9)
Effect of currency exchange rate changes on cash and cash equivalents	**1.0**	14.2
Increase in cash and cash equivalents	**26.3**	305.3
Cash and cash equivalents, beginning of period	**893.0**	460.1
Cash and cash equivalents, end of period	**$ 919.3**	$ 765.4

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

Table of Contents

W. R. Grace & Co. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(In millions, except par value and shares)

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 919.3**	$ 893.0
Restricted cash and cash equivalents as collateral for letter of credit facility	**81.1**	
Trade accounts receivable, less allowance of $6.8 (2009 $7.9)	**413.3**	365.8
Accounts receivable unconsolidated affiliates	**7.3**	7.4
Inventories	**267.4**	220.6
Deferred income taxes	**58.7**	61.5
Other current assets	**88.1**	80.4
Total Current Assets	**1,835.2**	1,628.7
Properties and equipment, net of accumulated depreciation and amortization of $1,665.1 (2009 $1,611.3)	**673.8**	690.1
Goodwill	**116.6**	118.6
Deferred income taxes	**887.2**	843.4
Asbestos-related insurance	**500.0**	500.0
Overfunded defined benefit pension plans	**33.0**	36.7
Investments in unconsolidated affiliates	**58.4**	45.7
Other assets	**105.4**	105.0
Total Assets	**$ 4,209.6**	$ 3,968.2
LIABILITIES AND EQUITY (DEFICIT)		
Liabilities Not Subject to Compromise		
Current Liabilities		
Debt payable within one year	**$ 7.4**	$ 10.8
Debt payable unconsolidated affiliates	**1.8**	1.8
Accounts payable	**210.3**	170.1
Accounts payable unconsolidated affiliates	**7.4**	4.1
Other current liabilities	**274.6**	307.9
Total Current Liabilities	**501.5**	494.7
Debt payable after one year	**3.2**	0.4
Debt payable unconsolidated affiliates	**12.2**	10.5
Deferred income taxes	**34.0**	34.2
Underfunded and unfunded defined benefit pension plans	**622.9**	530.4
Other liabilities	**40.7**	41.4
Total Liabilities Not Subject to Compromise	**1,214.5**	1,111.6
Liabilities Subject to Compromise Note 2		

Debt plus accrued interest	**903.9**	882.0
Income tax contingencies	**105.3**	117.9
Asbestos-related contingencies	**1,700.0**	1,700.0
Environmental contingencies	**144.0**	148.4
Postretirement benefits	**181.0**	171.2
Other liabilities and accrued interest	**136.0**	127.6
Total Liabilities Subject to Compromise	**3,170.2**	3,147.1
Total Liabilities	**4,384.7**	4,258.7
Commitments and Contingencies Note 10		
Equity (Deficit)		
Common stock issued, par value $0.01; 300,000,000 shares authorized; outstanding: 2010 72,826,241 (2009 72,283,318)	**0.8**	0.8
Paid-in capital	**453.7**	445.8
Accumulated deficit	**(13.2)**	(175.4)
Treasury stock, at cost: shares: 2010 4,153,519; (2009 4,696,442)	**(49.4)**	(55.9)
Accumulated other comprehensive loss	**(575.7)**	(514.5)
Total W. R. Grace & Co. Shareholders' Equity (Deficit)	**(183.8)**	(299.2)
Noncontrolling interests	**8.7**	8.7
Total Equity (Deficit)	**(175.1)**	(290.5)
Total Liabilities and Equity (Deficit)	**$ 4,209.6**	$ 3,968.2

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

Table of Contents

W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Equity (Deficit) (unaudited)

(In millions)

	Common Stock and Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
Balance, December 31, 2008	$ 437.4	$ (246.6)	$ (57.4)	$ (560.3)	$ 73.1	$ (353.8)
Net income		24.8			9.9	34.7
Stock plan activity	5.0		0.8			5.8
Other comprehensive income (loss)				15.8	(0.5)	15.3
Dividends paid					(14.3)	(14.3)
Balance, September 30, 2009	$ 442.4	$ (221.8)	$ (56.6)	$ (544.5)	$ 68.2	$ (312.3)
Balance, December 31, 2009	$ 446.6	$ (175.4)	$ (55.9)	$ (514.5)	$ 8.7	$ (290.5)
Net income		162.2			0.4	162.6
Stock plan activity	7.9		6.5			14.4
Other comprehensive loss				(61.2)	(0.4)	(61.6)
Balance, September 30, 2010	**$ 454.5**	**$ (13.2)**	**$ (49.4)**	**$ (575.7)**	**$ 8.7**	**$ (175.1)**

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

Table of Contents

W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Comprehensive Income (unaudited)

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income	**$ 54.9**	$ 50.8	**$ 162.6**	$ 34.7
Other comprehensive income (loss):				
Defined benefit pension and other postretirement plans, net of income taxes	**(11.9)**	(26.7)	**(72.1)**	(20.6)
Gain (loss) from hedging activities, net of income taxes	**(0.7)**	2.8	**(1.9)**	5.3
Currency translation adjustments	**8.5**	10.9	**12.8**	30.1
Unrealized gain on investment		0.2		1.0
Total other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	**(4.1)**	(12.8)	**(61.2)**	15.8
Total other comprehensive loss attributable to noncontrolling interests	**(0.6)**	(0.7)	**(0.4)**	(0.5)
Total other comprehensive income (loss)	**(4.7)**	(13.5)	**(61.6)**	15.3
Comprehensive income	**$ 50.2**	$ 37.3	**$ 101.0**	$ 50.0

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

Table of Contents

Notes to Consolidated Financial Statements

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 global basis through two operating segments: Grace Davison, which includes specialty catalysts and specialty materials used in a wide range of energy, refining, consumer, industrial, packaging and life sciences applications; and Grace Construction Products, which includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction.

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 During 2000 and the first quarter of 2001, Grace experienced several adverse developments in its asbestos-related litigation, including: a significant increase in personal injury claims, higher than expected costs to resolve personal injury and certain property damage claims, and class action lawsuits alleging damages from Zonolite® Attic Insulation ("ZAI"), a former Grace attic insulation product.

After a thorough review of these developments, Grace's Board of Directors concluded that a federal court-supervised bankruptcy process provided the best forum available to achieve fairness in resolving these claims and on April 2, 2001 (the "Filing Date"), Grace and 61 of its United States subsidiaries and affiliates, (collectively, the "Debtors"), filed voluntary petitions for reorganization (the "Filing") under Chapter 11 of the United States 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.

Under Chapter 11, the Debtors have continued to operate their businesses as debtors-in-possession under court protection from creditors and claimants, while using the Chapter 11 process to develop and implement a plan for addressing the asbestos-related claims. Since the Filing, all motions necessary to conduct normal business activities have been approved by the Bankruptcy Court. (See Note 2 for Chapter 11 Information)

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 2009 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 statement of the results of the interim periods presented; all such adjustments are of a normal recurring nature except for the impacts of adopting new accounting standards as discussed below. 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.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies (Continued)

The results of operations for the nine-month interim period ended September 30, 2010 are not necessarily indicative of the results of operations for the year ending December 31, 2010.

Reclassifications Certain amounts in prior years' Consolidated Financial Statements have been reclassified to conform to the 2010 presentation. Such reclassifications have not materially affected previously reported amounts in the Consolidated Financial Statements.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the periods presented. Actual amounts could differ from those estimates, and the differences could be material. 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, which depend on an assessment of the probability of loss and an estimate of ultimate resolution cost, such as asbestos-related matters (see Notes 2 and 3), income taxes (see Note 7), environmental remediation (see Note 10), and litigation (see Note 10);

- Pension and postretirement liabilities that depend on assumptions regarding participant life spans, future inflation, discount rates and total returns on invested funds (see Note 8); and

- Realization values of net deferred tax assets and insurance receivables, which depend on projections of future income and cash flows and assessments of insurance coverage and insurer solvency.

The accuracy of management's estimates may be materially affected by the uncertainties arising under Grace's Chapter 11 proceeding.

Effect of New Accounting Standards In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 167, "Amendments to FASB Interpretation No. 46(R)", which was subsequently codified as Accounting Standard Codification ("ASC") 810. The objective of this Statement is to improve financial reporting by enterprises involved with variable interest entities. Grace adopted this standard in 2010 and it did not have a material effect on its Consolidated Financial Statements.

In January 2010, the FASB issued Accounting Standard Update ("ASU") 2010-06 "Improving Disclosures about Fair Value Measurements". This update provides additional guidance and expands the disclosure requirements related to transfers of assets in and out of Levels 1 and 2 as well as the activity for Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Grace adopted the new disclosures requirements which were effective December 15, 2009 and they did not have a material effect on its Consolidated Financial Statements. See Note 6 for further discussion of ASC 820.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information

Official Parties to Grace's Chapter 11 Cases Three creditors' committees, two representing asbestos claimants, the Official Committee of Asbestos Personal Injury Claimants (the "PI Committee") and the Official Committee of Asbestos Property Damage Claimants (the "PD Committee"), and the third representing other unsecured creditors, and the Official Committee of Equity Security Holders (the "Equity Committee"), have been appointed in the Chapter 11 Cases. These committees, a legal representative of future asbestos personal injury claimants (the "PI FCR") and a legal representative of future asbestos property damage claimants (the "PD FCR"), have the right to be heard on all matters that come before the Bankruptcy Court and have important roles in the Chapter 11 Cases. The Debtors are required to bear certain costs and expenses of the committees and the representatives of future asbestos claimants, including those of their counsel and financial advisors.

As discussed below, the Debtors, the Equity Committee, the PI Committee and the PI FCR have filed a joint plan of reorganization, subsequently amended, with the Bankruptcy Court that is designed to address all pending and future asbestos-related claims and all other pre-petition claims as outlined therein. The committee representing general unsecured creditors, the PD Committee and the PD FCR are not co-proponents of this joint plan.

Plans of Reorganization On November 13, 2004, Grace filed a proposed plan of reorganization, as well as several associated documents, including a disclosure statement, trust distribution procedures, exhibits and other supporting documents, with the Bankruptcy Court. On January 13, 2005, Grace filed an amended plan of reorganization (the "Prior Plan") and related documents to address certain objections of creditors and other interested parties. At the time it was filed, the Prior Plan was supported by the committee representing general unsecured creditors and the Equity Committee, but was not supported by the PI Committee, the PD Committee or the PI FCR. At the time of filing of the Prior Plan, the PD FCR had not been appointed.

On July 26, 2007, the Bankruptcy Court terminated Grace's exclusive rights to propose a plan of reorganization and solicit votes thereon. As a result of the termination of these rights, any party-in-interest may propose a competing plan of reorganization. On November 5, 2007, the PI Committee and the PI FCR filed a proposed plan of reorganization (the "PI Plan") with the Bankruptcy Court.

On April 6, 2008, the Debtors reached an agreement in principle with the PI Committee, the PI FCR, and the Equity Committee designed to resolve all present and future asbestos-related personal injury claims (the "PI Settlement").

Prior to the PI Settlement, the Bankruptcy Court entered a case management order for estimating liability for pending and future asbestos personal injury claims. A trial for estimating liability for such claims began in January 2008 but was suspended in April 2008 as a result of the PI Settlement.

As contemplated by the PI Settlement, on September 19, 2008, the Debtors, supported by the Equity Committee, the PI Committee and the PI FCR, as co-proponents, filed a joint plan of reorganization with the Bankruptcy Court to reflect the terms of the PI Settlement.

On November 21, 2008, the Debtors reached an agreement in principle (the "ZAI PD Term Sheet") with the Putative Class Counsel to the U.S. ZAI claimants, the PD FCR, and the Equity

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Committee designed to resolve all present and future U.S. ZAI property damage claims and demands as described below.

On December 13, 2009, the Ontario Superior Court of Justice, in the Grace Canada, Inc. proceeding pending under the Companies' Creditors Arrangement Act, approved the Amended and Restated Canadian ZAI Minutes of Settlement (the "Amended Settlement"), entered into by the Company, Grace Canada, Inc. and legal representatives of Canadian ZAI property damage claimants on November 16, 2009, that would settle all Canadian ZAI property damage claims and demands. Under the Amended Settlement, all Canadian ZAI property damage claims and demands would be paid through a separate Canadian ZAI property damage claims fund of CDN$8.6 million. The effectiveness of the Amended Settlement is subject to the approval of the Bankruptcy Court. The Amended Settlement is also subject to the confirmation and effectiveness of the Joint Plan (as defined below) and will be considered null and void if the Bankruptcy Court's confirmation order is not issued on or before December 31, 2010. The Crown has filed objections to the terms of the Joint Plan based on the provisions of, and their treatment under, the Amended Settlement. The Bankruptcy Court is considering those confirmation objections.

As contemplated by the PI Settlement and the ZAI PD Term Sheet, the Debtors, supported by the Equity Committee, the PI Committee and the PI FCR, as co-proponents, amended the joint plan of reorganization and several associated documents, including a disclosure statement, trust distribution procedures, exhibits and other supporting documents on December 18, 2008, February 3, 2009 and February 27, 2009 through filings with the Bankruptcy Court. The Debtors and co-proponents filed technical modifications to the joint plan and certain exhibits on September 4, 2009, October 12, 2009, December 16, 2009 and March 19, 2010. The joint plan of reorganization (as amended and modified, the "Joint Plan") is designed to address all pending and future asbestos-related claims and all other pre-petition claims as outlined therein. The Joint Plan supersedes the Prior Plan and the PI Plan.

Under the Joint Plan, two asbestos trusts would be established under Section 524(g) of the Bankruptcy Code. All asbestos-related personal injury claims would be channeled for resolution to one asbestos trust (the "PI Trust") and all asbestos-related property damage claims, including U.S and Canadian ZAI property damage claims, would be channeled to a separate asbestos trust (the "PD Trust").

The Joint Plan assumes that Cryovac, Inc. ("Cryovac"), a wholly-owned subsidiary of Sealed Air Corporation ("Sealed Air"), will fund the PI Trust and the PD Trust with an aggregate of: (i) $512.5 million in cash (plus interest at 5.5% compounded annually from December 21, 2002); and (ii) 18 million shares (reflecting a two-for-one stock split) of common stock of Sealed Air, pursuant to the terms of a settlement agreement resolving asbestos-related, successor liability and fraudulent transfer claims against Sealed Air and Cryovac, as further described below (the "Sealed Air Settlement"). The value of the Sealed Air Settlement changes daily with the accrual of interest and the trading value of Sealed Air common stock. The Joint Plan also assumes that Fresenius AG ("Fresenius") will fund the PI Trust and the PD Trust with an aggregate of $115.0 million pursuant to the terms of a settlement agreement resolving asbestos-related, successor liability and fraudulent transfer claims against Fresenius, as further described below (the "Fresenius Settlement"). The Sealed Air Settlement and the Fresenius Settlement have been approved by the Bankruptcy Court but remain subject to the fulfillment of specified conditions.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Any plan of reorganization, including the Joint Plan and any plan of reorganization that may be filed in the future by a party-in-interest, will become effective only after a vote of eligible creditors and with the approval of the Bankruptcy Court and the U.S. District Court for the District of Delaware (the "District Court"). On March 9, 2009, the Bankruptcy Court approved the disclosure statement associated with the Joint Plan. On March 31, 2009, Grace distributed the Joint Plan, exhibits and disclosure statement along with voting materials to all creditors entitled to vote on the Joint Plan. The Bankruptcy Court required all creditors eligible to vote on the Joint Plan to submit their votes, and all parties-in-interest who object to the Joint Plan to submit their objections, by May 20, 2009. All classes of creditors entitled to vote accepted the Joint Plan. The class of general unsecured creditors, who voted on a provisional basis pending a determination by the Bankruptcy Court as to whether the class is impaired and therefore entitled to a vote, voted to reject the Joint Plan. The objections filed generally relate to demands for interest at rates higher than provided for in the Joint Plan, assertions that the Joint Plan may impair insurers' contractual rights, assertions that the Joint Plan discriminates against Libby, Montana personal injury claimants and the classification and treatment of claims under the Joint Plan.

Hearings to determine whether the Bankruptcy Court will approve the Joint Plan were held in June, September and October of 2009 and closing arguments on confirmation were held in January 2010.

Grace believes that the Joint Plan complies with the requirements for confirmation under the Bankruptcy Code and Grace intends to vigorously defend the Joint Plan against these and all other objections. If certain objections were resolved adversely to Grace and the other Joint Plan proponents, or if rulings by the Bankruptcy Court resolving certain objections favorably to the Joint Plan proponents were appealed, certain conditions to the Joint Plan, including for example, payments pursuant to the Sealed Air Settlement and the Fresenius Settlement, might not be satisfied and potential lenders might not be willing to provide the new financing that Grace requires to fund the Joint Plan. The resolution of these objections and any related appeals could have a material effect on the terms and timing of Grace's emergence from Chapter 11.

The Joint Plan is designed to address all pending and future asbestos-related claims and demands and all other pre-petition claims as outlined respectively therein. However, it is possible that the Joint Plan will not be confirmed by the Bankruptcy Court, or become effective if it is confirmed. If the Joint Plan is not confirmed by the Bankruptcy Court or the District Court or does not become effective, the Debtors would expect to resume the estimation trial, which was suspended in April 2008 due to the PI Settlement, to determine the amount of its asbestos-related liabilities. Under those circumstances, a different plan of reorganization may ultimately be confirmed and become effective. Under a different plan of reorganization, the interests of holders of Company common stock could be substantially diluted or cancelled. The value of Company common stock following the effective date of any plan of reorganization and the extent of any recovery by non-asbestos-related creditors would depend principally on the amount of Debtors' asbestos-related liability under such effective plan of reorganization.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Joint Plan of Reorganization Under the terms of the Joint Plan, claims under the Chapter 11 Cases would be satisfied as follows:

Asbestos-Related Personal Injury Claims

All pending and future asbestos-related personal injury claims and demands ("PI Claims") would be channeled to the PI Trust for resolution. The PI Trust would use specified trust distribution procedures to satisfy allowed PI Claims.

The PI Trust would be funded with:

$250 million in cash plus interest thereon from January 1, 2009 to the effective date of the Joint Plan to be paid by Grace;

Cash in the amount of the PD Initial Payment (as described below) and the ZAI Initial Payment (as described below) to be paid by Grace;

A warrant to acquire 10 million shares of Company common stock at an exercise price of $17.00 per share, expiring one year from the effective date of the Joint Plan;

Rights to all proceeds under all of the Debtors' insurance policies that are available for payment of PI Claims;

Cash in the amount of $512.5 million plus interest thereon from December 21, 2002 to the effective date of the Joint Plan at a rate of 5.5% per annum to be paid by Cryovac reduced by the amount of Cryovac's contribution to the PD Initial Payment and the ZAI Initial Payment (as described below) and 18 million shares of Sealed Air common stock to be paid by Cryovac pursuant to the Sealed Air Settlement;

Cash in the amount of $115 million to be paid by Fresenius pursuant to the Fresenius Settlement reduced by the amount of Fresenius' contribution to the PD Initial Payment and ZAI Initial Payment (as described below); and

Deferred payments by Grace of $110 million per year for five years beginning in 2019, and $100 million per year for 10 years beginning in 2024, that would be subordinate to any bank debt or bonds outstanding, guaranteed by the Company and secured by the Company's obligation to issue 50.1% of its outstanding common stock (measured as of the effective date of the Joint Plan) to the PI Trust in the event of default.

Asbestos-Related Property Damage Claims

All pending and future asbestos-related property damage claims and demands ("PD Claims") would be channeled to the PD Trust for resolution. The PD Trust would contribute CDN$8.6 million to a separate Canadian ZAI PD Claims fund through which Canadian ZAI PD Claims would be resolved. The PD Trust would generally resolve U.S. ZAI PD Claims that qualify for payment by paying 55% of the claimed amount, but in no event would the PD Trust pay more per claim than 55% of $7,500 (as adjusted for inflation each year after the fifth anniversary of the effective date of the Joint Plan). The PD Trust would satisfy other allowed PD Claims pursuant to specified trust distribution procedures with cash payments in the allowed settlement amount. Unresolved PD Claims and future PD claims would be litigated pursuant to procedures to be approved by the Bankruptcy

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Court and, to the extent such claims were determined to be allowed claims, would be paid in cash by the PD Trust in the amount determined by the Bankruptcy Court.

The PD Trust would contain two accounts, the PD account and the ZAI PD account. U.S. ZAI PD Claims would be paid from the ZAI PD account and other PD Claims would be paid from the PD account. The separate Canadian ZAI PD Claims would be paid by a separate fund established in Canada. Each account would have a separate trustee and the assets of the accounts would not be commingled. The two accounts would be funded as follows:

The PD account would be funded with:

- Approximately $147 million in cash plus cash in the amount of the estimated first six months of PD Trust expenses, to be paid by Cryovac and Fresenius (the "PD Initial Payment"), and CDN$8.6 million in cash to be paid by Grace pursuant to the Amended Settlement.

- A Grace obligation (the "PD Obligation") providing for a payment to the PD Trust every six months in the amount of the non-ZAI PD Claims allowed during the preceding six months plus interest and, except for the first six months, the amount of PD Trust expenses for the preceding six months. The aggregate amount to be paid under the PD Obligation would not be capped.

The ZAI PD account would be funded as follows (the "ZAI Assets"):

- $30 million in cash plus interest from April 1, 2009 to the effective date, to be paid by Cryovac and Fresenius (the "ZAI Initial Payment").

- $30 million in cash on the third anniversary of the effective date of the Joint Plan, to be paid by Grace.

- A Grace obligation providing for the payment of up to 10 contingent deferred payments of $8 million per year during the 20-year period beginning on the fifth anniversary of the effective date of the Joint Plan, with each such payment due only if the ZAI Assets fall below $10 million during the preceding year.

All payments to the PD Trust that were not to be paid on the effective date of the Joint Plan would be secured by the Company's obligation to issue 50.1% of its outstanding common stock (measured as of the effective date of the Joint Plan) to the PD Trust in the event of default. Grace would have the right to conduct annual audits of the books, records and claim processing procedures of the PD Trust.

Other Claims

All allowed administrative claims would be paid in cash and all allowed priority claims would be paid in cash with interest. Secured claims would be paid in cash with interest or by reinstatement. Allowed general unsecured claims would be paid in cash, including any post-petition interest as follows: (i) for holders of pre-petition bank credit facilities, post-petition interest at the rate of 6.09% from the Filing Date through December 31, 2005 and thereafter at floating prime, in each case compounded quarterly; and (ii) for all other unsecured claims that are not subject to a settlement agreement providing otherwise, interest at 4.19% from the Filing Date, compounded annually, or if pursuant to an existing contract, interest at the non-default contract rate. The general unsecured creditors that hold pre-petition bank debt have asserted that they are entitled to post-petition interest

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

at the default rate specified under the terms of the underlying credit agreements which, if paid, would be approximately an additional $110 million. Grace has asserted that such creditors are not entitled to interest at the default rate and has requested the Bankruptcy Court to determine the appropriate rate at which interest would be payable. Unsecured employee-related claims such as pension, retirement medical obligations and workers compensation claims, would be reinstated.

Effect on Company Common Stock

The Joint Plan assumes that Company common stock will remain outstanding at the effective date of the Joint Plan, but that the interests of existing shareholders would be subject to dilution by additional shares of Company common stock issued under the warrant or in the event of default in respect of the deferred payment obligations to the PI Trust or the PD Trust under the Company's security obligation.

In order to preserve significant tax benefits which are subject to elimination or limitation in the event of a change in control (as defined by the Internal Revenue Code) of Grace, the Joint Plan provides that under certain circumstances, the Board of Directors would have the authority to impose restrictions on the transfer of Grace stock with respect to certain 5% shareholders. These restrictions will generally not limit the ability of a person that holds less than 5% of Grace stock after emergence to either buy or sell stock on the open market. In addition, the Bankruptcy Court has approved trading restrictions on Grace common stock until the effective date of a plan of reorganization. These restrictions prohibit (without the consent of Grace) a person from acquiring more than 4.75% of the outstanding Grace common stock or, for any person already holding more than 4.75%, from increasing such person's holdings. This summary of the stock transfer restrictions does not purport to be complete and is qualified in its entirety by reference to the order of the Bankruptcy Court, which has been filed with the SEC.

Claims Filings The Bankruptcy Court established a bar date of March 31, 2003 for claims of general unsecured creditors, PD Claims (other than ZAI PD Claims) and medical monitoring claims related to asbestos. The bar date did not apply to PI Claims or claims related to ZAI PD Claims.

Approximately 14,900 proofs of claim were filed by the March 31, 2003 bar date. Of these claims, approximately 9,500 were non-asbestos related, approximately 4,400 were PD Claims, and approximately 1,000 were for medical monitoring. The medical monitoring claims were made by individuals who allege exposure to asbestos through Grace's products or operations. Under the Joint Plan, these claims would be channeled to the PI Trust for resolution. In addition, approximately 800 proofs of claim were filed after the bar date.

Approximately 6,685 non-asbestos related claims were filed by employees or former employees (the "Employee Claims") for benefits arising from Grace's existing plans, programs, and policies regarding employee bonuses and other compensation, indemnity agreements or various medical, insurance, severance, retiree and other benefits (collectively, the "Grace Benefit Programs"). On July 3, 2010, the Bankruptcy Court entered an order disallowing the Employee Claims because: (i) Grace has continued to pay its Grace Benefit Programs obligations during the Chapter 11 Cases and intends to do so for the remainder of the Chapter 11 Cases and thereafter; and (ii) pursuant to the Joint Plan, Grace is assuming its obligations under the Grace Benefit Programs and will continue to pay all such obligations pursuant to the terms and conditions of the applicable Grace Benefit Programs. The omnibus objection to Employee Claims does not address an additional approximately 255 claims filed by employees and former employees. These remaining employee-related claims will

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

be addressed through the claim objection process and the dispute resolution procedures approved by the Bankruptcy Court.

The remaining non-asbestos, non-employee related claims include claims for payment of goods and services, taxes, product warranties, principal and interest under pre-petition credit facilities, amounts due under leases and other contracts, leases and other executory contracts rejected in the Chapter 11 Cases, environmental remediation, pending non-asbestos-related litigation, and non-asbestos-related personal injury. The Debtors analyzed the claims filed pursuant to the March 31, 2003 bar date and found that many 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 September 30, 2010, of the approximately 4,335 non-ZAI PD Claims filed, approximately 395 claims have been resolved, approximately 3,905 claims have been expunged, reclassified by the Debtors or withdrawn by claimants, leaving approximately 35 claims to be addressed through the property damage case management order approved by the Bankruptcy Court and/or the Joint Plan or another plan of reorganization. The claims remaining to be addressed include 16 asbestos property damage claims that had been expunged by a bankruptcy court order that was reversed by an order of the District Court on September 29, 2009. As of September 30, 2010, of the approximately 3,295 non-asbestos claims filed, approximately 1,910 have been expunged or withdrawn by claimants, approximately 1,180 have been resolved, and an additional approximately 205 claims are to be addressed through the claim objection process and the dispute resolution procedures approved by the Bankruptcy Court.

Additionally, by order dated June 17, 2008, the Bankruptcy Court established October 31, 2008 as the bar date for ZAI PD Claims related to property located in the U.S. As of September 30, 2010, approximately 19,270 US ZAI PD Claims have been filed. In addition, on October 21, 2008, the Bankruptcy Court entered an order establishing August 31, 2009 as the bar date for ZAI PD Claims related to property located in Canada. Under the Amended Settlement, notwithstanding the Canadian ZAI PD Claims Bar Date of August 31, 2009, all Canadian ZAI PD Claimants who have filed a proof of claim by December 31, 2009, shall be entitled to seek compensation from the Canadian ZAI PD Claims Fund to be established pursuant to the Amended Settlement. As of September 30, 2010, approximately 14,100 Canadian ZAI PD Claims have been filed. The Joint Plan provides for the channeling of US ZAI PD Claims and Canadian ZAI PD Claims to the Asbestos PD Trust created under the Joint Plan, and the subsequent transfer of Canadian ZAI PD Claims to a Canadian fund. No bar date has been set for personal injury claims related to ZAI. The Joint Plan provides that ZAI PI Claims would be channeled to the Asbestos PI Trust created under the Joint Plan.

Grace is continuing to analyze and review unresolved claims in relation to the Joint Plan. Grace believes that its recorded liabilities for claims subject to the March 31, 2003 bar date 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 the merit and estimate the value of the claim. The PD Claims are considered as part of Grace's overall asbestos liability and are being accounted for in accordance with the conditions precedent under the Prior Plan, as described in Note 3.

Debt Capital All of the Debtors' pre-petition debt is in default due to the Filing. The accompanying Consolidated Balance Sheets reflect the classification of the Debtors' pre-petition debt within "liabilities subject to compromise."

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

On March 2, 2010, Grace terminated its debtor-in-possession (DIP) facility and replaced it with a $100 million cash-collateralized letter of credit facility with a commercial bank to support existing and new financial assurances.

Accounting Impact The accompanying Consolidated Financial Statements have been prepared in accordance with FASB ASC 852, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code". ASC 852 requires that financial statements of debtors-in-possession be prepared on a going concern basis, which contemplates continuity of operations and 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 the Debtors' assets and the liquidation of certain of the 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, the ultimate plan of reorganization could materially change the amounts and classifications reported in the Consolidated Financial Statements.

Pursuant to ASC 852, Grace's pre-petition and future 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 September 30, 2010, 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). 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. ASC 852 also requires separate reporting of certain expenses, realized gains and losses, and provisions for losses related to the Filing as reorganization items. Grace presents reorganization items as "Chapter 11 expenses, net of interest income," a separate caption in its Consolidated Statements of Operations.

As discussed in Note 3, Grace has not adjusted its accounting for asbestos-related assets or liabilities to reflect the Joint Plan.

Grace has not recorded the benefit of any assets that may be available to fund asbestos-related and other liabilities under the Fresenius Settlement and the Sealed Air Settlement, as under the Joint Plan, these assets will be transferred to the PI Trust and the PD Trust. The estimated fair value available under the Fresenius Settlement and the Sealed Air Settlement as measured at September 30, 2010, was $1,297.0 million comprised of $115.0 million in cash from Fresenius and $1,182.0 million in cash and stock from Cryovac under the Joint Plan. Payments under the Sealed Air Settlement will be made directly to the PI Trust and the PD Trust by Cryovac.

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 both pre-petition and future liabilities as determined under U.S. GAAP. Changes to pre-petition liabilities subsequent to the Filing Date reflect: (1) cash payments under approved court orders; (2) the terms of the Prior Plan, as discussed above and in Note 3, including the accrual of interest on pre-petition debt and other fixed obligations; (3) accruals for employee-related programs; and (4) changes in estimates related to other pre-petition contingent liabilities. The accounting for the asbestos-related liability component of "liabilities subject to compromise" is described in Note 3.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Components of liabilities subject to compromise are as follows:

(In millions)	September 30, 2010	December 31, 2009
Asbestos-related contingencies	**$ 1,700.0**	$ 1,700.0
Pre-petition bank debt plus accrued interest	**871.3**	850.6
Environmental contingencies	**144.0**	148.4
Income tax contingencies	**105.3**	117.9
Unfunded special pension arrangements	**120.2**	111.0
Postretirement benefits other than pension	**71.9**	69.3
Drawn letters of credit plus accrued interest	**32.6**	31.4
Accounts payable	**31.3**	31.2
Retained obligations of divested businesses	**29.0**	29.1
Other accrued liabilities	**75.7**	67.3
Reclassification to current liabilities(1)	**(11.1)**	(9.1)
Total Liabilities Subject to Compromise	**$ 3,170.2**	$ 3,147.1

(1) As of September 30, 2010 and December 31, 2009, approximately $11.1 million and $9.1 million, respectively, of certain pension and postretirement benefit obligations subject to compromise have been presented in other current liabilities in the Consolidated Balance Sheets in accordance with ASC 715.

Note that the unfunded special pension arrangements reflected above exclude non-U.S. pension plans and qualified U.S. pension plans that became underfunded subsequent to the Filing. Contributions to qualified U.S. pension plans are subject to Bankruptcy Court approval.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Change in Liabilities Subject to Compromise

The following table is a reconciliation of the changes in pre-filing date liability balances for the period from the Filing Date through September 30, 2010.

(In millions) (Unaudited)	Cumulative Since Filing
Balance, Filing Date April 2, 2001	$ 2,366.0
Cash disbursements and/or reclassifications under Bankruptcy Court orders:	
Payment of environmental settlement liability	(252.0)
Freight and distribution order	(5.7)
Trade accounts payable order	(9.1)
Resolution of contingencies subject to Chapter 11	(130.0)
Other court orders for payments of certain operating expenses	(342.7)
Expense/(income) items:	
Interest on pre-petition liabilities	461.3
Employee-related accruals	99.3
Provision for asbestos-related contingencies	744.8
Provision for environmental contingencies	331.1
Provision for income tax contingencies	(56.0)
Balance sheet reclassifications	(36.8)
Balance, end of period	**$ 3,170.2**

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

For the holders of pre-petition bank credit facilities, beginning January 1, 2006, Grace agreed to pay interest on pre-petition bank debt at the prime rate, adjusted for periodic changes, and compounded quarterly. The effective rate for the nine month periods ended September 30, 2010 and 2009 was 3.25%. From the Filing Date through December 31, 2005, Grace accrued interest on pre-petition bank debt at a negotiated fixed annual rate of 6.09%, compounded quarterly. The general unsecured creditors that hold pre-petition bank credit facilities have asserted that they are entitled to post-petition interest at the default rate specified under the terms of the underlying credit agreements which, if paid, would be approximately $110 million greater than the interest currently accrued. Grace has asserted that such creditors are not entitled to interest at the default rate and has requested the Bankruptcy Court to determine the appropriate rate at which interest would be payable.

For the holders of claims who, but for the Filing, would be entitled under a contract or otherwise to accrue or be paid interest on such claim in a non-default (or non-overdue payment) situation under applicable non-bankruptcy law, Grace accrues interest at the rate provided in the contract between the Grace entity and the claimant or such rate as may otherwise apply under applicable non-bankruptcy law.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

For all other holders of allowed general unsecured claims, Grace accrues interest at a rate of 4.19% per annum, compounded annually, unless otherwise negotiated during the claim settlement process.

Chapter 11 Expenses

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Legal and financial advisory fees	**$ 3.9**	$ 18.4	**$ 14.7**	$ 36.5
Interest income	**(0.3)**		**(0.3)**	(0.1)
Chapter 11 expenses, net of interest income	**$ 3.6**	$ 18.4	**$ 14.4**	$ 36.4

Pursuant to ASC 852, interest income earned on the Debtors' cash balances must be offset against Chapter 11 expenses.

Condensed Financial Information of the Debtors

W. R. Grace & Co. Chapter 11 Filing Entities
Debtor-in-Possession Statements of Operations

(In millions) (Unaudited)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales, including intercompany	**$ 875.3**	$ 1,058.4
Cost of goods sold, including intercompany, exclusive of depreciation and amortization shown separately below	**552.2**	751.9
Selling, general and administrative expenses	**187.0**	229.4
Defined benefit pension expense	**43.0**	52.1
Depreciation and amortization	**50.3**	41.5
Chapter 11 expenses, net of interest income	**14.4**	36.4
Research and development expenses	**25.9**	26.9
Gain on sales of product lines		(22.2)
Interest expense and related financing costs	**30.0**	27.7
Restructuring expenses	**2.7**	12.1
Provision for environmental remediation		1.1
Other income, net	**(52.5)**	(48.8)
	853.0	1,108.1
Income (loss) before income taxes and equity in net income of non-filing entities	**22.3**	(49.7)
Benefit from income taxes	**4.2**	7.6
Income (loss) before equity in net income of non-filing entities	**26.5**	(42.1)
Equity in net income of non-filing entities	**135.7**	66.9
Net income attributable to W. R. Grace & Co. shareholders	**$ 162.2**	$ 24.8

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

W. R. Grace & Co. Chapter 11 Filing Entities
Debtor-in-Possession Statements of Cash Flows

(In millions) (Unaudited)	Nine Months Ended September 30, 2010	2009
Operating Activities		
Net income attributable to W. R. Grace & Co. shareholders	**$ 162.2**	$ 24.8
Reconciliation to net cash used for operating activities:		
Depreciation and amortization	**50.3**	41.5
Equity in net income of non-filing entities	**(135.7)**	(66.9)
Benefit from income taxes	**(4.2)**	(7.6)
Income taxes (paid), net of refunds received	**1.1**	(3.0)
Defined benefit pension expense	**43.0**	52.1
Payments under defined benefit pension arrangements	**(40.1)**	(33.0)
Changes in assets and liabilities, excluding the effect of foreign currency translation:		
Trade accounts receivable	**(28.7)**	8.4
Inventories	**(22.9)**	34.8
Accounts payable	**19.4**	(12.8)
Other accruals and non-cash items	**(1.7)**	3.9
Net cash provided by operating activities	**42.7**	42.2
Investing Activities		
Capital expenditures	**(34.5)**	(30.0)
Transfer to restricted cash and cash equivalents as collateral for letter of credit facility	**(75.7)**	
Proceeds from termination of life insurance policies, net of investing activities		67.6
Proceeds from sales of product lines		26.7
Other investing activities		54.2
Net cash provided by (used for) investing activities	**(110.2)**	118.5
Net cash provided by (used for) financing activities	**7.5**	(0.8)
Net increase (decrease) in cash and cash equivalents	**(60.0)**	159.9
Cash and cash equivalents, beginning of period	**685.5**	218.1
Cash and cash equivalents, end of period	**$ 625.5**	$ 378.0

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

W. R. Grace & Co. Chapter 11 Filing Entities
Debtor-in-Possession Balance Sheets

(In millions) (Unaudited)	September 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 625.5**	$ 685.5
Restricted cash and cash equivalents as collateral for letter of credit facility	**75.7**	
Trade accounts receivable, net	**103.3**	74.6
Accounts receivable unconsolidated affiliates	**6.2**	6.4
Receivables from non-filing entities, net	**68.0**	64.5
Inventories	**109.4**	86.5
Other current assets	**61.7**	61.1
Total Current Assets	**1,049.8**	978.6
Properties and equipment, net	**387.5**	399.6
Deferred income taxes	**836.5**	808.5
Asbestos-related insurance	**500.0**	500.0
Loans receivable from non-filing entities, net	**372.8**	388.9
Investment in non-filing entities	**380.3**	254.0
Overfunded defined benefit pension plans	**0.2**	0.2
Investment in unconsolidated affiliates	**58.4**	45.7
Other assets	**78.9**	70.3
Total Assets	**$ 3,664.4**	$ 3,445.8
LIABILITIES AND EQUITY (DEFICIT)		
Liabilities Not Subject to Compromise		
Current liabilities (including $7.3 due to an unconsolidated affiliate) (2009 $2.1)	**$ 198.8**	$ 196.8
Underfunded defined benefit pension plans	**432.9**	359.6
Other liabilities (including $12.2 due to an unconsolidated affiliate) (2009 $10.5)	**46.2**	41.4
Total Liabilities Not Subject to Compromise	**677.9**	597.8
Liabilities Subject to Compromise	**3,170.2**	3,147.1
Total Liabilities	**3,848.1**	3,744.9
Total W. R. Grace & Co. Shareholders' Equity (Deficit)	**(183.8)**	(299.2)
Noncontrolling interests in Chapter 11 filing entities	**0.1**	0.1
Total Equity (Deficit)	**(183.7)**	(299.1)
Total Liabilities and Equity (Deficit)	**$ 3,664.4**	$ 3,445.8

In addition to Grace's financial reporting obligations as prescribed by the 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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

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 personal 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 personal 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. The PI and PD Committees, representing the interests of asbestos personal injury and asbestos property damage claimants, respectively, and the PI FCR and PD FCR, representing the interests of future asbestos personal injury and property damage claimants, respectively, have been appointed in the Chapter 11 Cases. Grace's obligations with respect to present and future claims will be determined through the Chapter 11 process.

Property Damage Litigation The plaintiffs in asbestos property damage lawsuits generally seek to have the defendants pay for the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Various factors can affect the merit and value of PD Claims, including legal defenses, product identification, the amount and type of product involved, the age, type, size and use of the building, the legal status of the claimant, the jurisdictional history of prior cases, the court in which the case is pending, and the difficulty of asbestos abatement, if necessary.

Out of 380 asbestos property damage cases (which involved thousands of buildings) filed prior to the Filing Date, 140 were dismissed without payment of any damages or settlement amounts; judgments after trial were entered in favor of Grace in nine cases; judgments after trial were entered in favor of the plaintiffs in eight cases 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 are alleged to involve ZAI).

Approximately 4,300 additional PD claims were filed prior to the March 31, 2003 claims bar date established by the Bankruptcy Court. (The bar date did not apply to ZAI claims.) Grace objected to virtually all PD claims on a number of different bases, including: no authorization to file a claim; the claim was previously settled or adjudicated; no or insufficient documentation; failure to identify a Grace product; the expiration of the applicable statute of limitations and/or statute of repose, and/or laches; and a defense that the product in place is not hazardous. As of September 30, 2010, following the reclassification, withdrawal or expungement of claims, approximately 430 PD Claims subject to the March 31, 2003 bar date remain outstanding. The Bankruptcy Court has approved settlement agreements covering approximately 395 of such claims for an aggregate allowed amount of $147 million.

Eight of the ZAI cases were filed as purported class action lawsuits in 2000 and 2001. In addition, 10 lawsuits were filed as purported class actions in 2004 and 2005 with respect to persons and homes in Canada. 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

Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

of homes and that the cost of removal could be several thousand dollars per home. As a result of the Filing, the eight U.S. cases have been stayed.

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 ZAI was and continues to be safe for its intended purpose and poses little or no threat to human health. The plaintiffs in the ZAI lawsuits dispute Grace's position on the safety of ZAI. In October, 2004, the Bankruptcy Court held a hearing on motions filed by the parties to address a number of important legal and factual issues regarding the ZAI claims. In December, 2006, the Bankruptcy Court issued an opinion and order holding that, although ZAI is contaminated with asbestos and can release asbestos fibers when disturbed, there is no unreasonable risk of harm from ZAI. The ZAI claimants sought an interlocutory appeal of the opinion and order with the District Court, but that request was denied. In the event the Joint Plan is not confirmed, the ZAI claimants have reserved their right to appeal such opinion and order if and when it becomes a final order.

At the Debtors' request, in July 2008, the Bankruptcy Court established a bar date for U.S. ZAI PD Claims and approved a related notice program that required any person with a U.S. ZAI PD Claim to submit an individual proof of claim no later than October 31, 2008. Approximately 17,960 U.S. ZAI PD Claims were filed prior to the October 31, 2008 claims bar date and, as of September 30, 2010 an additional 1,310 U.S. ZAI PD Claims were filed. As described above, on December 13, 2009, the Ontario Superior Court of Justice, in the Grace Canada, Inc. proceeding pending under the Companies' Creditors Arrangement Act, approved the Amended Settlement that would settle all Canadian ZAI PD Claims on the terms of the Joint Plan. On October 20, 2008, the Bankruptcy Court established August 31, 2009 as the bar date for Canadian ZAI PD Claims. Approximately 13,100 Canadian ZAI PD Claims were filed prior to the bar date and, as of September 30, 2010, an additional 1,000 Canadian ZAI PD Claims were filed. Under the Amended Settlement, all Canadian ZAI PD Claims filed before December 31, 2009 would be eligible to seek compensation from the Canadian ZAI property damage claims fund.

As described in Note 2, on November 21, 2008, the Debtors, the Putative Class Counsel to the U.S. ZAI property damage claimants, the PD FCR, and the Equity Committee reached an agreement in principle designed to resolve all present and future U.S. ZAI PD Claims. The terms of the U.S. and Canadian ZAI agreements in principle have been incorporated into the terms of the Joint Plan and related documents. As described below, Grace's recorded asbestos related liability does not include the agreements in principle to settle the ZAI liability that is part of the Joint Plan. The asbestos related liability at September 30, 2010, which is based on the Prior Plan, assumes the risk of loss from ZAI litigation is not probable. If the Joint Plan or another plan of reorganization reflecting the agreements in principle is not confirmed or does not become effective and Grace's view as to risk of loss from ZAI litigation is not sustained, Grace believes the cost to resolve the U.S. ZAI litigation may be material.

Personal Injury Litigation Asbestos personal injury claimants allege adverse health effects from exposure to asbestos-containing products formerly manufactured by Grace. Historically, Grace's cost to resolve such claims has been influenced by numerous variables, including the nature of the disease alleged, product identification, proof of exposure to a Grace product, negotiation factors, 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.

Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

Cumulatively through the Filing Date, 16,354 asbestos personal injury lawsuits involving approximately 35,720 PI 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 PI Claims were disposed of (through settlements and judgments) for a total of $645.6 million. As of the Filing Date, 129,191 PI Claims were pending against Grace. Grace believes that a substantial number of additional PI Claims would have been received between the Filing Date and September 30, 2010 had such PI Claims not been stayed by the Bankruptcy Court.

The Bankruptcy Court has entered a case management order for estimating liability for pending and future PI Claims. A trial for estimating liability for PI Claims began in January 2008 but was suspended in April 2008 as a result of the PI Settlement.

Asbestos-Related Liability The asbestos-related liability as of September 30, 2010 and December 31, 2009, including pre-Filing Date and post-Filing Date settlements, was $1,700.0 million and is included in "liabilities subject to compromise" in the accompanying Consolidated Balance Sheets. Grace adjusted its asbestos-related liability in the fourth quarter of 2004 based on the filing of the Prior Plan. The Prior Plan contained a condition precedent that the Bankruptcy Court determine that $1,613.0 million (this amount, plus $87.0 million of prepetition settlements and judgments, "the Funding Amount") was sufficient to pay, on a net present value basis, all PI Claims and PD Claims entitled to payment and related trust administration costs and expenses. Therefore, prior to the PI Settlement, the U.S. and Canadian ZAI agreements in principle and the filing of the Joint Plan, Grace was prepared to settle its asbestos-related claims at the Funding Amount as part of a consensual plan of reorganization and recorded its asbestos-related liability on that basis. The treatment of asbestos-related liabilities is significantly different under the Joint Plan than under the Prior Plan. Grace has not adjusted its accounting for asbestos-related liabilities to reflect the Joint Plan. At this time, Grace is unable to determine a reasonable estimate of the value of certain consideration payable to the PI Trust and the PD Trust under the Joint Plan. These values will ultimately be determined on the effective date of the Joint Plan. Grace expects to adjust its accounting for the Joint Plan when the consideration can be measured and material conditions to the Joint Plan are satisfied. Grace expects that such adjustments may be material to Grace's consolidated financial position and results of operations.

If the Joint Plan is not confirmed by the Bankruptcy Court, the Debtors would expect to resume the estimation trial, which was suspended in April 2008 due to the PI Settlement, to determine the amount of its asbestos-related liabilities. Through the PI Claim estimation process and the continued adjudication of PD Claims, Grace would seek to demonstrate that most claims have no value because they fail to establish any significant property damage, health impairment or occupational exposure to asbestos from Grace's operations or products. If the Bankruptcy Court agreed with Grace's position on the number of, and the amounts to be paid in respect of, allowed PI Claims and PD Claims, then Grace believes that the Funding Amount could be lower than $1,700.0 million. However, this outcome would be highly uncertain and would depend on a number of Bankruptcy Court rulings favorable to Grace's position. Conversely, the PI and PD Committees and the PI FCR have asserted that Grace's asbestos-related liabilities are substantially higher than $1,700.0 million, and in fact are in excess of Grace's business value. If the Bankruptcy Court accepted the position of the PI and PD Committees and the PI FCR, then any plan of reorganization likely would result in the loss of all or substantially all equity value by current shareholders.

Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

Insurance Rights Grace holds insurance policies that provide coverage for 1962 to 1985 with respect to asbestos-related lawsuits and claims. For the most part, coverage for years 1962 through 1972 has been exhausted, leaving coverage for years 1973 through 1985 available for pending and future asbestos claims. Since 1985, insurance coverage for asbestos-related liabilities has not been commercially available to Grace. As discussed in Note 2, pursuant to the Joint Plan, rights to insurance policies that provide coverage for asbestos-related claims and proceeds, including interest, received after the date of the PI Settlement, would be assigned to the PI Trust.

For each insurance year, Grace's coverage consists of both primary and excess coverage. Primary coverage for an insurance year generally reimburses Grace for the portion of paid claims allocated to that year starting at the first dollar paid (after any deductible) through the coverage limit. With one exception, coverage disputes regarding Grace's primary insurance policies have been settled, and the settlement amounts have been paid in full. Excess insurance generally reimburses Grace for claims paid above a specified policy threshold through the coverage limit. For each insurance year, Grace's insurance program includes multiple layers of excess coverage. A layer of excess coverage, which may include multiple insurers, is triggered once claim payments that can be assigned to that insurance year are paid up to the threshold of that layer.

Grace has entered into settlement agreements, which are not dependent upon the effectiveness of the Joint Plan, with various excess insurance carriers. These settlements involve amounts paid and to be paid to Grace. The unpaid maximum aggregate amount available under these settlement agreements is approximately $487.0 million. With respect to asbestos-related personal injury claims, these settlement agreements generally require that the claims be spread over the claimant's exposure period and that each insurer pay a pro rata portion of each claim based on the amount of coverage provided during each year of the total exposure period.

Excluding settlement agreements that are dependent upon the effectiveness of the Joint Plan, Grace has no agreements in place with insurers with respect to approximately $483.0 million of excess coverage. Such policies are at layers of coverage that have not been triggered, but certain layers would be triggered if the Prior Plan became effective at the recorded asbestos-related liability of $1,700.0 million. In estimating its ultimate insurance recovery, Grace has assumed that its unsettled excess coverage would be available on terms that are substantially similar to the existing settlement agreements described above. Unless the Joint Plan becomes effective and asbestos-related insurance rights are assigned to the PI Trust, Grace believes that any allowed ZAI claims also would be covered under the policies discussed above to the extent they relate to installations of ZAI occurring after July 1, 1973.

In addition, Grace has approximately $253.0 million of excess coverage with insolvent or non-paying insurance carriers. Non-paying carriers are those that, although technically solvent, are not currently meeting their obligations to pay claims. Grace has filed and continues to file claims in the insolvency proceedings of these carriers. Grace periodically receives distributions from some of these insolvent carriers.

Grace has entered into settlement agreements, which are dependent upon the effectiveness of the Joint Plan, with underwriters of a portion of Grace's excess insurance coverage. Under these agreements, the insurers have agreed, subject to certain conditions, to pay to the PI Trust (directly or through an escrow arrangement) an aggregate of approximately $236.0 million in respect of claims for which Grace was provided coverage under the affected policies. Certain other insurers have agreed, subject to certain conditions, to reimburse the PI Trust on terms that are substantially

Table of Contents

Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

similar to the existing settlement agreements described above. Due to the open contingencies in these settlement agreements, Grace has not recorded this amount or reduced its asbestos insurance receivable balance.

As of September 30, 2010, excluding the effect of settlements that are dependent upon the effectiveness of the Joint Plan and after subtracting previous reimbursements by insurers and allowing for discounts pursuant to certain settlement agreements that are not dependent upon the effectiveness of the Joint Plan, there remains approximately $970.0 million of excess coverage from 54 presently solvent insurers. Grace estimates that eligible claims would have to exceed $4.0 billion to access total coverage.

Grace estimates that under the Prior Plan, assuming the resolution value of asbestos-related claims is equal to the recorded liability of $1,700.0 million (which should fund claim payments in excess of $2.0 billion), Grace should be entitled to approximately $500.0 million of insurance recovery. This amount was determined by estimating the aggregate and per year payout for claims over time and applying the expected insurance recovery factor to such claims. However, the ultimate amount of insurance recovered on such claims will depend on a number of factors that will only be determined at the time claims are paid including: the nature of the claim, the relevant exposure years, the timing of payment, the solvency of insurers and the legal status of policy rights. Accordingly, Grace's estimate of insurance recovery under the Prior Plan may differ materially from actual amounts that ultimately may be received by Grace. Under the Joint Plan, these insurance rights will be assigned to the PI Trust.

4. Inventories

Inventories are stated at the lower of cost or market, and cost is determined using FIFO. Inventories consisted of the following at September 30, 2010 and December 31, 2009:

(In millions)	September 30, 2010	December 31, 2009
Raw materials	**$ 66.6**	$ 48.8
In process	**34.7**	36.8
Finished products	**132.0**	104.6
Other	**34.1**	30.4
	$ 267.4	$ 220.6

Table of Contents

Notes to Consolidated Financial Statements (Continued)

5. Debt

(In millions)	September 30, 2010	December 31, 2009
Debt payable within one year	**$ 7.4**	$ 10.8
Debt payable after one year		
Other long-term borrowings	**$ 3.2**	$ 0.4
Debt Subject to Compromise		
Bank borrowings	**$ 500.0**	$ 500.0
Accrued interest on bank borrowings	**371.3**	350.6
Drawn letters of credit	**26.1**	25.8
Accrued interest on drawn letters of credit	**6.5**	5.6
	$ 903.9	$ 882.0
Weighted average interest rates on total debt	**3.5%**	3.4%

On March 2, 2010, Grace terminated its debtor-in-possession (DIP) facility and replaced it with a $100 million cash-collateralized letter of credit facility to support existing and new financial assurances. The terminated DIP facility also provided credit support for foreign currency and commodity derivatives. The asset backed arrangement of the DIP facility has been replaced with cash collateral accounts which secure the obligations arising from letters of credit, foreign currency and commodity transactions. At September 30, 2010, Grace held $81.1 million in restricted cash and cash equivalents primarily to support this facility. As of September 30, 2010, the Debtors had no revolving loans and had $69.5 million of standby letters of credit issued and outstanding under the facility.

At September 30, 2010, the fair value of Grace's debt payable within one year not subject to compromise approximated the recorded value of $7.4 million. Fair value is determined based on expected future cash flows (discounted at market interest rates), quotes from financial institutions and other appropriate valuation methodologies. At September 30, 2010, the carrying value of Grace's bank debt subject to compromise plus interest was $903.9 million. The estimated fair value of the bank debt approximates the carrying value; however, because such debt is subject to compromise in Grace's Chapter 11 proceeding, neither carrying values nor market values may reflect ultimate liquidation value.

6. Fair Value Measurements and Risk

Certain of Grace's assets and liabilities are reported at fair value. ASC 820 defines fair value as the value that would be received at the measurement date in the principal or "most advantageous" market. Grace uses principal market data, whenever available, to value assets and liabilities that are required to be reported at fair value.

Grace has identified the following financial assets and liabilities that are subject to the fair value analysis required by ASC 820:

Fair Value of Debt and Other Financial Instruments

See Note 5 for a discussion of the fair value of Grace's debt. At September 30, 2010, the recorded values of other financial instruments such as cash equivalents, short-term investments, and

Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

trade receivables and payables approximated their fair values, based on the short-term maturities and floating rate characteristics of these instruments.

Derivatives

Certain raw materials and energy sources are subject to price fluctuation. Grace hedges against volatility in certain raw material and energy purchases using financial instruments as appropriate. Grace also enters into long term supply agreements and/or forward commitments to secure materials at stable prices and in quantities fully expected to be used in production.

From time to time, Grace enters into commodity derivatives such as fixed-rate swaps with financial institutions to mitigate the risk of volatility of natural gas prices or other commodities. Under fixed-rate swaps, Grace locks in a fixed rate with a financial institution for future purchases, purchases its commodity from a supplier at the prevailing market rate, and then settles with the bank for any difference in the rates, thereby "swapping" a variable rate for a fixed rate.

Grace uses fixed-rate swaps to mitigate the risk of natural gas price volatility. The valuation of Grace's fixed-rate natural gas swaps was determined using a market approach, based on natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of natural gas. Current open contracts hedge forecasted transactions until September 2011. The effective portion of the gain or loss on the commodity contracts is recorded in accumulated other comprehensive income (loss) and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At September 30, 2010, the contract volume, or notional amount, of the commodity contracts was 2.7 million MMBtu (million British thermal units).

Grace uses fixed-rate swaps to mitigate the risk of aluminum price volatility. The valuation of Grace's fixed-rate aluminum swaps was determined using a market approach, based on aluminum futures trading prices quoted on the London Metal Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of aluminum. Current open contracts hedge forecasted transactions until September 2011. The effective portion of the gain or loss on the commodity contracts is recorded in accumulated other comprehensive income (loss) and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At September 30, 2010, the contract volume, or notional amount, of the commodity contracts was 3.5 million pounds.

Because Grace does business in over 40 countries, results are exposed to fluctuations in currency exchange rates. Grace seeks to minimize exposure to these fluctuations by matching sales in volatile currencies with expenditures in the same currencies, but it is not always possible to do so. From time to time Grace will use financial instruments such as currency forward contracts, options, or combinations of the two to reduce the risk of certain specific transactions. However, Grace does not have a policy of hedging all exposures, because management does not believe that such a level of hedging would be cost-effective.

From time to time, Grace enters into currency exchange rate forward and/or option contracts to mitigate the effects of exchange rate fluctuations. The valuation of Grace's currency exchange rate forward contracts is determined using both a market approach and an income approach. Inputs used to value currency exchange rate forward contracts consist of: (1) spot rates, which are quoted by

Table of Contents

Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

various financial institutions; (2) forward points, which are primarily affected by changes in interest rates; and (3) discount rates used to present value future cash flows, which are based on the London Interbank Offered Rate (LIBOR) curve.

In November 2007, Grace purchased currency forward contracts to mitigate the effect of currency risk with respect to intercompany loans between its principal U.S. subsidiary and a German subsidiary. As of September 30, 2010, the total notional amount related to the remaining outstanding currency forward contracts was €247.8 million. These derivatives are not designated as hedging instruments under ASC 815.

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009:

	Fair Value Measurements at September 30, 2010 Using			
Items Measured at Fair Value on a Recurring Basis (In millions)	**Total**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Currency derivatives	$ 18.8	$	$ 18.8	$
Commodity derivatives	0.2		0.2	
Total Assets	**$ 19.0**	**$**	**$ 19.0**	**$**
Liabilities				
Currency derivatives	$ 6.3	$	$ 6.3	$
Commodity derivatives	2.6		2.6	
Total Liabilities	**$ 8.9**	**$**	**$ 8.9**	**$**

	Fair Value Measurements at December 31, 2009 Using			
Items Measured at Fair Value on a Recurring Basis (In millions)	**Total**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Currency derivatives	$ 4.4	$	$ 4.4	$

Commodity derivatives		0.9				0.9		
Total Assets	**$**	**5.3**	**$**		**$**	**5.3**	**$**	
Liabilities								
Currency derivatives	$	1.4	$		$	1.4	$	
Commodity derivatives		0.5				0.5		
Total Liabilities	**$**	**1.9**	**$**		**$**	**1.9**	**$**	

Table of Contents

Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

The following tables present the location and fair values of derivative instruments included in the Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009:

Fair Values of Derivative Instruments at September 30, 2010 (In millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Commodity contracts	Other current assets	$ 0.2	Other current liabilities	$ 2.6
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	4.4	Other current liabilities	6.3
Currency contracts	Other assets	14.4	Other liabilities	
Total derivatives		**$ 19.0**		**$ 8.9**

Fair Values of Derivative Instruments at December 31, 2009 (In millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Commodity contracts	Other current assets	$ 0.9	Other current liabilities	$ 0.5
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	3.1	Other current liabilities	1.4
Currency contracts	Other assets	1.3	Other liabilities	
Total derivatives		**$ 5.3**		**$ 1.9**

Table of Contents

Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

The following tables present the location and amount of gains and losses on derivative instruments included in the Consolidated Statements of Operations or, when applicable, gains and losses initially recognized in other comprehensive income (loss) ("OCI") for the three and nine month periods ended September 30, 2010 and 2009:

The Effect of Derivative Instruments on the Consolidated Statement of Operations for the Three Months Ended September 30, 2010 (In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Currency contracts	$	Cost of goods sold	$
Commodity contracts	(2.1)	Cost of goods sold	(1.0)
Total derivatives	**$ (2.1)**		**$ (1.0)**

	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Derivatives not designated as hedging instruments under ASC 815:		
Currency contracts	Other income (expense)	$ (31.0)

The Effect of Derivative Instruments on the Consolidated Statement of Operations for the Nine Months Ended September 30, 2010 (In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)

Derivatives in ASC 815 cash flow hedging relationships:					
Currency contracts	$		Cost of goods sold	$	0.1
Commodity contracts		(5.5)	Cost of goods sold		(2.7)
Total derivatives	**$**	**(5.5)**		**$**	**(2.6)**

	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
Derivatives not designated as hedging instruments under ASC 815:			
Currency contracts	Other income (expense)	$	20.4

Table of Contents

Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

The Effect of Derivative Instruments on the Consolidated Statement of Operations for the Three Months Ended September 30, 2009 (In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Currency contracts	$ 0.1	Cost of goods sold	$
Commodity contracts	(0.4)	Cost of goods sold	(4.9)
Total derivatives	**$ (0.3)**		**$ (4.9)**

	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Derivatives not designated as hedging instruments under ASC 815:		
Currency contracts	Other income (expense)	$ (15.1)

The Effect of Derivative Instruments on the Consolidated Statement of Operations for the Nine Months Ended September 30, 2009 (In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Currency contracts	$ 0.1	Cost of goods sold	$

Commodity contracts		(8.5)	Cost of goods sold		(16.6)
Total derivatives	**$**	**(8.4)**		**$**	**(16.6)**

	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
Derivatives not designated as hedging instruments under ASC 815:			
Currency contracts	Other income (expense)	$	(24.7)

Debt and Interest Rate Swap Agreements

Grace was not a party to any debt or interest rate swaps at September 30, 2010 and December 31, 2009.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

Credit Risk

Grace is exposed to credit risk in its trade accounts receivable. Customers in the petroleum refining and construction industries represent the greatest exposure. Grace's credit evaluation policies, relatively short collection terms and history of minimal credit losses mitigate credit risk exposures. Grace does not generally require collateral for its trade accounts receivable, but may require a bank letter of credit in certain instances, particularly when selling to customers in cash restricted countries.

Grace may also be exposed to credit risk in its derivatives contracts. Grace monitors counterparty credit risk and currently does not anticipate nonperformance by its derivatives counterparties. Grace's derivatives contracts are with internationally recognized commercial financial institutions.

7. Income Taxes

On February 18, 2010, the Joint Committee on Taxation of the U.S. Congress ("JCT") approved the settlement relating to the carryback of remaining net operating losses from 1998 to the tax years 1990 through 1996 that resulted in a refund. Grace recorded a tax benefit in the amount of $16.9 million related to the settlement in March of 2010. The recorded tax benefit included an estimate of interest payable to Grace that exceeds the IRS estimate by approximately $4.7 million. Grace maintains that its calculation of the interest payable to Grace is correct and plans to file a claim for the additional interest once the refund check is received.

Grace accrues potential interest and any associated penalties related to uncertain tax positions in "benefit from (provision for) income taxes" in the Consolidated Statements of Operations. The total amount of interest and penalties accrued on uncertain tax positions was $31.0 million ($22.5 million net of applicable tax benefits) and $69.8 million ($48.3 million net of applicable tax benefits) as of September 30, 2010 and December 31, 2009, respectively. The total amount of interest and penalties expensed for the quarter ended September 30, 2010 was $0.5 million ($0.4 million net of applicable tax benefits).

Grace files U.S. federal income tax returns as well as income tax returns in various states and foreign jurisdictions. In many cases, Grace's uncertain tax positions are related to income tax returns for tax years that remain subject to examination by the relevant taxing authorities. The following table summarizes these open tax years by major jurisdiction:

Tax Jurisdiction(1)	Examination in Progress	Examination Not Yet Initiated
United States Federal	None	2007 - 2009
United States State	1993 - 2007	2008 - 2009
Germany	2006 - 2008	2009
United Kingdom	None	2003 - 2009
Singapore	None	2002 - 2009
France	None	2007 - 2009
Canada	2002 - 2005	2006 - 2009

(1) Includes federal as well as state, provincial or local jurisdictions, as applicable.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

7. Income Taxes (Continued)

As a large taxpayer, Grace is under continual audit by the various tax authorities on open-year tax positions. It is possible that the amount of the liability for unrecognized tax benefits could change in the next twelve months. As a result of examinations and settlements, Grace believes there may be a material change to Grace's aggregate recorded liabilities for uncertain tax positions in the next twelve months with respect to the following matters:

1. In court decisions that only applied between the government and taxpayers other than Grace, certain tax benefits similar to those claimed by a non-U.S. subsidiary of Grace were denied. Notwithstanding these cases, Grace believes based on the statutes, administrative regulations and other case law existing at this time that the tax benefits claimed by its non-U.S. subsidiary should be sustained if challenged. It is reasonably possible, however, that such benefits would not be sustained. In such case, Grace estimates that the tax expense could range from $28.1 million to $58.4 million (including interest) and Grace would also expect to accelerate recognition of a deferred charge of $13.6 million.

2. As a result of the expected resolution of examination issues and settlements with U.S. federal and state tax authorities, Grace believes it is reasonably possible that the amount of unrecognized tax benefits would decrease during the next twelve months by up to $21.7 million.

8. Pension Plans and Other Postretirement Benefit Plans

Pension Plans The following table presents the funded status of Grace's fully-funded, underfunded, and unfunded pension plans:

(In millions)	September 30, 2010	December 31, 2009
Overfunded defined benefit pension plans	**$ 33.0**	$ 36.7
Underfunded defined benefit pension plans	**(448.9)**	(372.2)
Unfunded defined benefit pension plans	**(174.0)**	(158.2)
Total underfunded and unfunded defined benefit pension plans	**(622.9)**	(530.4)
Unfunded defined benefit pension plans included in liabilities subject to compromise	**(114.5)**	(105.4)
Pension liabilities included in other current liabilities	**(12.9)**	(12.9)
Net funded status	**$ (717.3)**	$ (612.0)

Fully-funded plans include several advance-funded plans where the fair value of the plan assets exceeds the projected benefit obligation, or PBO. This group of plans was overfunded by $33.0 million as of September 30, 2010, and the overfunded status is reflected as "overfunded defined benefit pension plans" in the Consolidated Balance Sheets. Underfunded plans include a group of advance-funded plans that are underfunded on a PBO basis by a total of $448.9 million as of September 30, 2010. Additionally, Grace has several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO of $301.4 million at September 30, 2010 is unfunded. The combined balance of the underfunded and unfunded plans was $750.3 million as of September 30, 2010 and is presented as a liability on the Consolidated Balance Sheets as follows: $12.9 million in "other current liabilities;" $622.9 million included in "underfunded and unfunded defined benefit

Table of Contents

Notes to Consolidated Financial Statements (Continued)

8. Pension Plans and Other Postretirement Benefit Plans (Continued)

pension plans", of which $448.9 million relates to underfunded plans and $174.0 million relates to unfunded plans; and $114.5 million in "liabilities subject to compromise."

Grace maintains defined benefit pension plans covering current and former employees of certain business units and divested business units who meet age and service requirements. Benefits are generally based on final average salary and years of service. Grace funds its U.S. qualified pension plans ("U.S. qualified pension plans") in accordance with U.S. federal laws and regulations. Non-U.S. pension plans ("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 U.S. qualified pension plan limits imposed by federal tax law. These plans cover officers and higher-level employees and serve to increase the combined pension amount to the level that they otherwise would have received under the U.S. qualified pension plans in the absence of such limits. The nonqualified plans are unfunded and Grace pays the costs of benefits as they are due to the participants.

At the December 31, 2009 measurement date for Grace's defined benefit pension plans, the projected benefit obligation ("PBO") was approximately $1,531 million as measured under U.S. GAAP. The PBO basis reflects the present value (using a 5.75% discount rate for U.S. plans and a 5.71% weighted average discount rate for non-U.S. plans as of December 31, 2009) of vested and non-vested benefits earned from employee service to date, based upon current services and estimated future pay increases for active employees.

On a quarterly basis, Grace analyzes pension assets and pension liabilities along with the resulting funded status and updates its estimate of these measures. Funded status is adjusted for contributions, benefit payments, actual return on assets, current discount rates, and other identifiable and material actuarial changes. A full remeasurement is performed annually.

The assumed discount rate for pension plans reflects the market rates for high quality corporate bonds currently available and is subject to change based on changes in the overall market interest rates. For the U.S. qualified pension plans, the assumed discount rate of 5.75% as of December 31, 2009 was selected by Grace, in consultation with its independent actuaries, based on a yield curve constructed from a portfolio of high quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plan. Based on review of an updated yield curve analysis as of September 30, 2010, Grace decreased the discount rate for the U.S. qualified pension plans from 5.75% at December 31, 2009 to 4.75% at September 30, 2010 based on market rates at that time. Grace also evaluated the current discount rates for the pension plans in the United Kingdom, Germany and Canada, which combined represented approximately 90% of the benefit obligation of the non-U.S. pension plans as of December 31, 2009. Based on review of the yield curve analyses for these plans as of September 30, 2010, Grace changed the discount rate for the United Kingdom from 5.75% at December 31, 2009 to 5.00% at September 30, 2010, for Germany from 5.25% at December 31, 2009 to 4.25% at September 30, 2010, and for Canada from 6.25% at December 31, 2009 to 5.50% at September 30, 2010. The funded status as of September 30, 2010 reflects a decrease in total assets of approximately $18 million and an increase in total liabilities of approximately $146 million as compared to December 31, 2009, resulting from the change in discount rates (including the postretirement plan). After tax effects, total assets increased from December 31, 2009 to September 30, 2010 by approximately $36 million, total liabilities increased by approximately $146 million and shareholders' equity decreased by approximately $110 million.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

8. Pension Plans and Other Postretirement Benefit Plans (Continued)

Postretirement Benefits Other Than Pensions Grace provides postretirement health care and life insurance benefits for retired employees of certain U.S. business units and certain divested business units. The postretirement medical plan provides various levels of benefits to employees hired before 1991 who retire from Grace after age 55 with at least 10 years of service. These plans are unfunded and Grace pays a portion of the costs of benefits under these plans as they are incurred. Grace applies ASC 715 to these plans which requires that the future costs of postretirement health care and life insurance benefits be accrued over the employees' years of service.

Retirees and beneficiaries covered by the postretirement medical plan are required to contribute a minimum of 40% of the calculated premium for that coverage. During 2002, per capita costs under the retiree medical plans exceeded caps on the amount Grace was required to contribute under a 1993 amendment to the plan. As a result, for 2003 and future years, retirees will bear 100% of any increase in premium costs.

For 2010 measurement purposes, per capita costs, before retiree contributions, were assumed to initially increase at a rate of 7.5%. The rate of increase is assumed to decrease gradually to 5% through 2014 and remain at that level thereafter. A one percentage point increase or decrease in assumed health care medical cost trend rates would not materially change Grace's postretirement benefit obligations (impact of less than $1 million) and would have a negligible impact on the aggregate of the service and interest cost components of net periodic benefit cost.

Components of Net Periodic Benefit Cost (Income) (In millions)	Three Months Ended September 30, 2010			2009		
	Pension		Other Post	Pension		Other Post
	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.	Retirement
Service cost	**$ 4.2**	**$ 1.9**	**$ 0.1**	$ 4.0	$ 1.8	$ 0.1
Interest cost	**15.5**	**5.3**	**0.8**	15.7	5.5	1.0
Expected return on plan assets	**(13.0)**	**(3.7)**		(11.0)	(3.9)	
Amortization of prior service cost (credit)	**0.2**		**(1.0)**	0.4		(1.0)
Amortization of net deferred actuarial loss	**7.4**	**1.3**	**0.1**	8.2	0.8	0.2
Net periodic benefit cost	**$ 14.3**	**$ 4.8**	**$**	$ 17.3	$ 4.2	$ 0.3

Components of Net Periodic Benefit Cost (Income) (In millions)	Nine Months Ended September 30, 2010			2009		
	Pension		Other Post	Pension		Other Post
	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.	Retirement
Service cost	**$ 12.7**	**$ 5.7**	**$ 0.2**	$ 12.2	$ 5.1	$ 0.2
Interest cost	**46.3**	**15.9**	**2.6**	47.2	15.4	3.2
Expected return on plan assets	**(39.0)**	**(11.2)**		(33.0)	(11.0)	
Amortization of prior service cost (credit)	**0.8**		**(3.0)**	0.9	0.1	(3.0)
Amortization of net deferred actuarial loss	**22.2**	**3.9**	**0.3**	24.7	2.3	0.6
Net periodic benefit cost	**$ 43.0**	**$ 14.3**	**$ 0.1**	$ 52.0	$ 11.9	$ 1.0

Plan Contributions and Funding Subject to any required approval of the Bankruptcy Court, Grace intends to satisfy its funding obligations under the U.S. qualified pension plans and to comply

Table of Contents

Notes to Consolidated Financial Statements (Continued)

8. Pension Plans and Other Postretirement Benefit Plans (Continued)

with all of the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). For ERISA purposes, funded status is calculated on a different basis than under U.S. GAAP. On July 1, 2010, Grace obtained Bankruptcy Court approval to fund minimum required payments under the U.S. qualified pension plans of approximately $37 million for the period from July 2010 through January 2011. In that regard, Grace contributed approximately $38 million in 2009 and approximately $46 million from January 2010 through October 2010 to the trusts that hold assets of the U.S. qualified pension plans. While Grace intends to continue to fund all minimum required payments under the U.S. qualified pension plans, there can be no assurance that the Bankruptcy Court will continue to approve these payments.

Contributions to non-U.S. pension plans are not subject to Bankruptcy Court approval and Grace intends to fund such plans based on applicable legal requirements and actuarial and trustee recommendations.

Grace plans to pay benefits as they become due under virtually all pay-as-you-go plans and to maintain compliance with federal funding laws for its U.S. qualified pension plans.

Defined Contribution Retirement Plan Grace sponsors a defined contribution retirement plan for its employees in the United States. This plan is qualified under section 401(k) of the U.S. tax code. Currently, Grace contributes an amount equal to 100% of employee contributions, up to 6% of an individual employee's salary or wages. Grace's cost related to this benefit plan for the three and nine month periods ended September 30, 2010 were $3.0 million and $9.5 million compared with $3.0 million and $8.9 million for the prior year periods.

9. Other Balance Sheet Accounts

(In millions)	September 30, 2010	December 31, 2009
Other Assets		
Patents, licenses and other intangible assets, net	**$ 54.1**	$ 61.5
Deferred charges	**27.1**	29.1
Fair value of currency forward contracts	**14.4**	1.3
Other assets	**9.8**	13.1
	$ 105.4	$ 105.0
Other Current Liabilities		
Accrued compensation	**$ 80.8**	$ 101.0
Customer volume rebates	**29.4**	33.0
Income tax payable	**23.1**	23.9
Accrued commissions	**10.3**	11.6
Deferred tax liability	**9.6**	6.0
Fair value of currency forward and commodity contracts	**8.9**	1.9
Accrued Chapter 11 reorganization expenses	**6.4**	15.7
Other accrued liabilities	**106.1**	114.8
	$ 274.6	$ 307.9

Notes to Consolidated Financial Statements (Continued)

9. Other Balance Sheet Accounts (Continued)

Accrued compensation in the table above includes salaries and wages as well as estimated current amounts due under the annual and long-term incentive programs.

10. Commitments and Contingent Liabilities

Asbestos-Related Liability See Note 3 to the Consolidated Financial Statements for a discussion of Grace's asbestos-related liability.

Environmental Remediation 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.

At September 30, 2010, Grace's estimated liability for environmental investigative and remediation costs totaled $144.0 million, as compared with $148.4 million at December 31, 2009. The amount is based on funding and/or remediation agreements in place, including the Multi-Site Agreement described below, and Grace's best estimate of its cost for sites not subject to a formal remediation plan. Grace's estimated environmental liabilities are included in "liabilities subject to compromise" in the accompanying Consolidated Balance Sheets.

Net cash expenditures charged against previously established reserves for the nine months ended September 30, 2010 and 2009 were $4.4 million and $5.8 million, respectively.

Vermiculite Related Matters

Grace's total estimated liability for asbestos remediation related to its former vermiculite operations in Libby, including the cost of remediation at vermiculite processing sites outside of Libby, at September 30, 2010 and December 31, 2009 was $50.2 million and $51.6 million, respectively, excluding interest where applicable and is recorded in Environmental Contingencies in the Consolidated Balance Sheets. The estimated obligation as of each date does not include the cost to remediate the Grace-owned Libby vermiculite mine, which is not currently estimable.

During 2009, Grace learned that the U.S. Environmental Protection Agency ("EPA") may reinvestigate approximately 100 former or currently operating plants at which vermiculite concentrate from the Grace-owned Libby vermiculite mine was expanded. Of these expansion plants, seven are currently owned by Grace. Grace is unable to determine the possible results of any reinvestigation and whether it may result in additional claims by EPA. The estimated obligation as of September 30, 2010 does not include any costs in respect of this reinvestigation or any additional EPA claims, which costs if any, are not currently estimable.

Notes to Consolidated Financial Statements (Continued)

10. Commitments and Contingent Liabilities (Continued)

Non-Vermiculite Related Matters

At September 30, 2010 and December 31, 2009, Grace's estimated liability for remediation of sites not related to its former vermiculite mining and processing activities was $93.8 million and $96.8 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. Grace's estimated liability is based upon an evaluation of claims for which sufficient information was available and the liabilities settled pursuant to the Multi-Site Settlement agreement described below. As Grace receives new information and continues its claims evaluation process, its estimated liability may change materially.

Multi-Site Settlement

The EPA has filed proofs of claim with respect to potential contamination at 38 sites, including vermiculite related claims and non-vermiculite related claims. In June 2008, Grace entered into a multi-site settlement agreement (the "Multi-Site Agreement") with the U.S. Government, on behalf of EPA and other federal agencies. Under the Multi-Site Agreement, Grace has agreed to pay approximately $44 million, which is included in the liabilities described above, to the U.S. Government and other parties in settlement of 35 of these outstanding claims and the U.S. Government has agreed not to take action against Grace under the Comprehensive Environmental Response, Compensation, and Liability Act with respect to these sites. Grace intends to separately fund or carry out remediation at two of the remaining sites. With respect to the third remaining site, Libby, Montana, EPA's claims, have been resolved except for claims in respect of the Grace-owned Libby vermiculite mine. Grace is working in cooperation with EPA to investigate the Libby vermiculite mine. The settlement amount under the Multi-Site Agreement is payable upon Grace's emergence from Chapter 11.

Purchase Commitments Grace engages in purchase commitments to ensure supply and to minimize the volatility of major components of direct manufacturing costs including natural gas, certain metals, asphalt, amines and other materials. Such commitments are for quantities that Grace fully expects to use in its normal operations.

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

- 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.

- Contracts entered into with customers in which Grace has agreed to indemnify such parties against damages caused by its personnel or products or resulting from its violation of applicable laws.

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

10. Commitments and Contingent Liabilities (Continued)

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. Based on historical experience and the likelihood that such parties will make a claim against Grace, Grace believes that such indemnification obligations are immaterial.

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 accompanying 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.

Financial Assurances Financial assurances have been established for a variety of purposes, including insurance and environmental matters, asbestos settlements and appeals, trade-related commitments and other matters. At September 30, 2010, Grace had gross financial assurances issued and outstanding of $252.3 million, comprised of $116.3 million of surety bonds issued by various insurance companies and $136.0 million of standby letters of credit and other financial assurances issued by various banks. As discussed in Note 5, $69.5 million of these financial assurances have been issued under the letter of credit 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. GAAP. 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" in 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 at September 30, 2010.

11. Restructuring Expenses and Related Asset Impairments

In the third quarter of 2010, Grace took cost reduction and restructuring actions to further improve productivity. Grace accrued $5.7 million ($3.6 million in Grace Construction Products, and $2.1 million in Corporate) of restructuring expenses during the third quarter 2010, compared to $1.9 million ($(0.5) million in Grace Davison, $0.6 million in Grace Construction Products, and $1.8 million in Corporate) during the third quarter 2009. The third quarter restructuring actions consisted of an involuntary program that reduced total employment by 87 employees worldwide. Grace expects substantially all costs related to the 2009 restructuring programs to be paid by

Notes to Consolidated Financial Statements (Continued)

11. Restructuring Expenses and Related Asset Impairments (Continued)

December 31, 2010, and substantially all costs related to the 2010 restructuring programs to be paid by December 31, 2011.

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Restructuring Expenses and Related Asset Impairments:				
Severance and other employee related costs	**$ 4.7**	$ 1.9	**$ 8.1**	$ 26.7
Asset write-offs and other restructuring costs	**1.0**		**1.0**	0.2
Total Restructuring Expenses and Related Asset Impairments	**$ 5.7**	$ 1.9	**$ 9.1**	$ 26.9

Restructuring Severance Liability Rollforward (In millions)	Total
Balance at January 01, 2008	$
Accrual for severance and other employee related costs	5.2
Payments	(4.5)
Balance at December 31, 2008	0.7
Accrual for severance and other employee related costs	29.6
Payments	(17.5)
Currency Translation and other	0.7
Balance at December 31, 2009	13.5
Accrual for severance and other employee related costs	8.1
Payments	(8.5)
Currency Translation and other	(0.6)
Balance at September 30, 2010	**12.5**

Employee Reduction by Operating Segment	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Grace Davison			**9**	183
Grace Construction Products	**47**	4	**107**	218
Corporate	**40**	21	**56**	61
Total	**87**	25	**172**	462

Table of Contents

Notes to Consolidated Financial Statements (Continued)

12. Other (Income) Expense, net

Components of other (income) expense, net are as follows:

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Translation effects intercompany loans	**$ (35.2)**	$ (16.7)	**$ 19.0**	$ (18.6)
Value of currency forward contracts intercompany loans	**30.9**	14.6	**(20.7)**	23.9
Other currency transaction effects	**2.2**	2.4	**4.0**	6.6
Interest income	**(0.3)**	(0.2)	**(0.6)**	(1.0)
Net income from life insurance policies	**0.1**		**0.1**	(1.2)
Net loss (gain) on sales of investments and disposals of assets	**0.2**	0.6	**(0.1)**	(2.5)
Other miscellaneous (income) expense		4.4	**(1.5)**	3.4
Total other (income) expense, net	**$ (2.1)**	$ 5.1	**$ 0.2**	$ 10.6

13. Other Comprehensive Income (Loss)

The following tables present the pre-tax, tax, and after-tax components of Grace's other comprehensive income (loss) for the three and nine month periods ended September 30, 2010 and 2009:

Three Months Ended September 30, 2010 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	**$ (0.8)**	**$ 0.3**	**$ (0.5)**
Amortization of net deferred actuarial loss included in net periodic benefit cost	**8.8**	**(3.0)**	**5.8**
Other changes in funded status	**(26.3)**	**9.1**	**(17.2)**
Benefit plans, net	**(18.3)**	**6.4**	**(11.9)**
Gain (loss) from hedging activities	**(1.1)**	**0.4**	**(0.7)**
Currency translation adjustments	**8.5**		**8.5**
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	**$ (10.9)**	**$ 6.8**	**$ (4.1)**

Table of Contents

Notes to Consolidated Financial Statements (Continued)

13. Other Comprehensive Income (Loss) (Continued)

Nine Months Ended September 30, 2010 (In millions)	**Pre-Tax Amount**	**Tax Benefit/ (Expense)**	**After-Tax Amount**
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	**$ (2.2)**	**$ 0.8**	**$ (1.4)**
Amortization of net deferred actuarial loss included in net periodic benefit cost	**26.4**	**(9.0)**	**17.4**
Other changes in funded status	**(133.1)**	**45.0**	**(88.1)**
Benefit plans, net	**(108.9)**	**36.8**	**(72.1)**
Gain (loss) from hedging activities	**(2.9)**	**1.0**	**(1.9)**
Currency translation adjustments	**12.8**		**12.8**
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	**$ (99.0)**	**$ 37.8**	**$ (61.2)**

Three Months Ended September 30, 2009 (In millions)	**Pre-Tax Amount**	**Tax Benefit/ (Expense)**	**After-Tax Amount**
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	$ (0.6)	$ 0.3	$ (0.3)
Amortization of net deferred actuarial loss included in net periodic benefit cost	9.2	(3.2)	6.0
Other changes in funded status	(48.6)	16.2	(32.4)
Benefit plans, net	(40.0)	13.3	(26.7)
Gain (loss) from hedging activities	4.6	(1.8)	2.8
Currency translation adjustments	10.9		10.9
Unrealized gain on investment	0.2		0.2
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	$ (24.3)	$ 11.5	$ (12.8)

Table of Contents

Notes to Consolidated Financial Statements (Continued)

13. Other Comprehensive Income (Loss) (Continued)

Nine Months Ended September 30, 2009 (In millions)	**Pre-Tax Amount**	**Tax Benefit/ (Expense)**	**After-Tax Amount**
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	$ (2.0)	$ 0.8	$ (1.2)
Amortization of net deferred actuarial loss included in net periodic benefit cost	27.6	(9.6)	18.0
Other changes in funded status	(54.7)	17.3	(37.4)
Benefit plans, net	(29.1)	8.5	(20.6)
Gain (loss) from hedging activities	8.2	(2.9)	5.3
Currency translation adjustments	30.1		30.1
Unrealized gain on investment	1.0		1.0
Other comprehensive income attributable to W. R. Grace & Co. shareholders	$ 10.2	$ 5.6	$ 15.8

The following table presents the components of Grace's accumulated other comprehensive loss at September 30, 2010 and December 31, 2009:

Components of Accumulated Other Comprehensive Loss (In millions)	**September 30, 2010**	**December 31, 2009**
Defined benefit pension and other postretirement plans:		
Net prior service cost (net of tax)	**$ (2.3)**	$ (0.9)
Net deferred actuarial loss (net of tax)	**(613.5)**	(542.8)
Benefit plans, net	**(615.8)**	(543.7)
Hedging activities, net of tax	**(1.5)**	0.4
Currency translation	**42.4**	29.6
Unrealized loss on investment	**(0.8)**	(0.8)
Accumulated other comprehensive loss	**$ (575.7)**	$ (514.5)

Accumulated other comprehensive loss related to the defined benefit pension and other postretirement plans at September 30, 2010 and December 31, 2009, respectively, represents the accumulation of net deferred actuarial losses of $613.5 million and $542.8 million as well as net prior service costs of $2.3 million and $0.9 million. These amounts are net of tax and are amortized as a component of net periodic benefit cost. For the nine month periods ended September 30, 2010 and 2009, the pre-tax benefit recognized related to prior service credits was $2.2 million and $2.0 million, respectively, and the pre-tax expense recognized for amortization of accumulated actuarial losses was $26.4 million and $27.6 million, respectively. In addition, $133.1 million and $54.7 million of pre-tax loss was recognized for changes in funded status during the nine month periods ended September 30, 2010 and 2009, respectively.

Grace is a global enterprise operating in over 40 countries with local currency generally deemed to be the functional currency for accounting purposes. The currency translation amount represents the adjustments necessary to translate the balance sheets valued in local currencies to the U.S. dollar as of the end of each period presented, and to translate revenues and expenses at average exchange rates for each period presented.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

13. Other Comprehensive Income (Loss) (Continued)

See Note 6 for a discussion of hedging activities.

14. Earnings Per Share

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

(In millions, except per share amounts)	Three Months Ended, September 30, 2010	Three Months Ended, September 30, 2009	Nine Months Ended, September 30, 2010	Nine Months Ended, September 30, 2009
Numerators				
Net income attributable to W. R. Grace & Co. shareholders	**$ 54.9**	$ 44.4	**$ 162.2**	$ 24.8
Denominators				
Weighted average common shares basic calculation	**72.8**	72.2	**72.7**	72.2
Dilutive effect of employee stock options	**1.5**	0.7	**1.9**	0.1
Weighted average common shares diluted calculation	**74.3**	72.9	**74.6**	72.3
Basic earnings per share	**$ 0.75**	$ 0.61	**$ 2.23**	$ 0.34