

W R GRACE & CO  
Form 10-Q  
May 04, 2012

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

**FORM 10-Q**

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

**For the Quarterly Period Ended March 31, 2012**

**OR**

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

**Commission File Number 1-13953**

**W. R. GRACE & CO.**

**Delaware**  
(State of Incorporation)

**65-0773649**  
(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  No

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  No

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

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

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

<b>Class</b>	<b>Outstanding at April 30, 2012</b>
Common Stock, \$0.01 par value per share	74,618,460 shares

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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.

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**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 March 31, 2012, 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.

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**Report of Independent Registered Public Accounting Firm**

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

We have reviewed the accompanying consolidated balance sheet of W.R. Grace & Co. and its subsidiaries as of March 31, 2012, and the related consolidated statements of operations, comprehensive income, equity (deficit), and cash flows for the three-month periods ended March 31, 2012 and 2011. 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, 2011, and the related consolidated statements of operations, comprehensive income, equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 24, 2012, 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. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLC

McLean, Virginia  
May 4, 2012

Table of Contents**W. R. Grace & Co. and Subsidiaries****Consolidated Statements of Operations (unaudited)**

<b>(In millions, except per share amounts)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net sales	\$ 754.4	\$ 695.7
Cost of goods sold	477.3	443.3
Gross profit	277.1	252.4
Selling, general and administrative expenses	136.6	129.9
Restructuring expenses and related asset impairments	3.0	0.2
Research and development expenses	16.5	15.6
Defined benefit pension expense	18.8	16.5
Interest expense and related financing costs	11.3	10.4
Provision for environmental remediation	0.6	0.2
Chapter 11 expenses, net of interest income	4.5	5.8
Equity in earnings of unconsolidated affiliate	(5.7)	(3.5)
Other income, net	(0.6)	(2.2)
Total costs and expenses	185.0	172.9
Income before income taxes	92.1	79.5
Provision for income taxes	(30.8)	(25.5)
Net income	61.3	54.0
Less: Net loss (income) attributable to noncontrolling interests	(0.4)	0.2
<b>Net income attributable to W. R. Grace &amp; Co. shareholders</b>	<b>\$ 60.9</b>	<b>\$ 54.2</b>
<b>Earnings Per Share Attributable to W. R. Grace &amp; Co. Shareholders</b>		
<b>Basic earnings per share:</b>		
Net income attributable to W. R. Grace & Co. shareholders	\$ 0.82	\$ 0.74
Weighted average number of basic shares	74.3	73.2
<b>Diluted earnings per share:</b>		
Net income attributable to W. R. Grace & Co. shareholders	\$ 0.80	\$ 0.72
Weighted average number of diluted shares	76.4	75.1

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)**

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net income</b>	<b>\$ 61.3</b>	<b>\$ 54.0</b>
<b>Other comprehensive income (loss):</b>		
Defined benefit pension and other postretirement plans, net of income taxes	<b>10.1</b>	13.2
Currency translation adjustments	<b>6.2</b>	1.8
Gain (loss) from hedging activities, net of income taxes	<b>(0.1)</b>	0.7
Total other comprehensive income attributable to W. R. Grace & Co. shareholders	<b>16.2</b>	15.7
Total other comprehensive income attributable to noncontrolling interests	<b>0.1</b>	
Total other comprehensive income	<b>16.3</b>	15.7
<b>Comprehensive income</b>	<b>\$ 77.6</b>	<b>\$ 69.7</b>

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

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## W. R. Grace &amp; Co. and Subsidiaries

## Consolidated Statements of Cash Flows (unaudited)

(In millions)	Three Months Ended	
	2012	2011
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 61.3	\$ 54.0
<b>Reconciliation to net cash used for operating activities:</b>		
Depreciation and amortization	29.4	29.2
Equity in earnings of unconsolidated affiliate	(5.7)	(3.5)
Dividends received from unconsolidated affiliate	5.2	
Chapter 11 expenses, net of interest income	4.5	5.8
Chapter 11 expenses paid	(3.2)	(3.8)
Provision for income taxes	30.8	25.5
Income taxes paid, net of refunds	(8.0)	(23.9)
Interest accrued on pre-petition liabilities subject to compromise	9.9	9.5
Restructuring expenses and related asset impairments	3.0	0.2
Payments for restructuring expenses and related asset impairments	(2.2)	(1.9)
Defined benefit pension expense	18.8	16.5
Payments under defined benefit pension arrangements	(113.7)	(207.3)
Provision for environmental remediation	0.6	0.2
Expenditures for environmental remediation	(4.4)	(2.4)
<b>Changes in assets and liabilities, excluding effect of currency translation:</b>		
Trade accounts receivable	11.1	(37.8)
Inventories	(26.1)	(38.5)
Accounts payable	(1.2)	45.4
All other items, net	(41.8)	(47.6)
<b>Net cash used for operating activities</b>	<b>(31.7)</b>	<b>(180.4)</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(25.0)	(23.4)
Transfer to restricted cash and cash equivalents	(3.0)	(0.6)
Other investing activities		(0.1)
<b>Net cash used for investing activities</b>	<b>(28.0)</b>	<b>(24.1)</b>
<b>FINANCING ACTIVITIES</b>		
Net (repayments) borrowings under credit arrangements	0.9	(3.2)
Proceeds from exercise of stock options	12.0	1.9
Other financing activities	1.7	1.6
<b>Net cash provided by financing activities</b>	<b>14.6</b>	<b>0.3</b>
Effect of currency exchange rate changes on cash and cash equivalents	5.0	7.9
<b>Decrease in cash and cash equivalents</b>	<b>(40.1)</b>	<b>(196.3)</b>
Cash and cash equivalents, beginning of period	1,048.3	1,015.7
Cash and cash equivalents, end of period	\$ 1,008.2	\$ 819.4

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





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## W. R. Grace &amp; Co. and Subsidiaries

## Consolidated Balance Sheets (unaudited)

(In millions, except par value and shares)	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,008.2	\$ 1,048.3
Restricted cash and cash equivalents	139.6	136.5
Trade accounts receivable, less allowance of \$8.2 (2011 \$8.1)	458.0	461.8
Accounts receivable unconsolidated affiliate	13.7	11.2
Inventories	358.5	329.1
Deferred income taxes	68.7	66.5
Other current assets	86.5	93.0
<b>Total Current Assets</b>	<b>2,133.2</b>	<b>2,146.4</b>
Properties and equipment, net of accumulated depreciation and amortization of \$1,758.2 (2011 \$1,722.7)	726.8	723.5
Goodwill	150.4	148.2
Deferred income taxes	735.0	759.4
Asbestos-related insurance	500.0	500.0
Overfunded defined benefit pension plans	33.3	37.1
Investment in unconsolidated affiliate	76.4	70.8
Other assets	104.9	108.6
<b>Total Assets</b>	<b>\$ 4,460.0</b>	<b>\$ 4,494.0</b>
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
<b>Liabilities Not Subject to Compromise</b>		
<b>Current Liabilities</b>		
Debt payable within one year	\$ 59.1	\$ 57.9
Debt payable unconsolidated affiliate	3.5	3.4
Accounts payable	259.1	257.1
Accounts payable unconsolidated affiliate	4.5	0.5
Other current liabilities	291.1	314.0
<b>Total Current Liabilities</b>	<b>617.3</b>	<b>632.9</b>
Debt payable after one year	3.0	3.3
Debt payable unconsolidated affiliate	19.4	18.3
Deferred income taxes	19.1	19.8
Underfunded and unfunded defined benefit pension plans	293.5	407.4
Other liabilities	45.6	49.1
<b>Total Liabilities Not Subject to Compromise</b>	<b>997.9</b>	<b>1,130.8</b>
<b>Liabilities Subject to Compromise Note 2</b>		
Debt plus accrued interest	949.5	941.8
Income tax contingencies	70.3	69.3

Asbestos-related contingencies	<b>1,700.0</b>	1,700.0
Environmental contingencies	<b>146.3</b>	149.9
Postretirement benefits	<b>184.3</b>	185.2
Other liabilities and accrued interest	<b>152.3</b>	149.5
<b>Total Liabilities Subject to Compromise</b>	<b>3,202.7</b>	3,195.7
<b>Total Liabilities</b>	<b>4,200.6</b>	4,326.5
<b>Commitments and Contingencies Note 10</b>		
<b>Equity (Deficit)</b>		
Common stock issued, par value \$0.01; 300,000,000 shares authorized; outstanding: 2012 74,569,101 (2011 73,886,050)	<b>0.7</b>	0.7
Paid-in capital	<b>479.1</b>	472.9
Retained earnings	<b>362.0</b>	301.1
Treasury stock, at cost: shares: 2012 2,410,659 (2011 3,093,710)	<b>(28.7)</b>	(36.8)
Accumulated other comprehensive loss	<b>(562.3)</b>	(578.5)
<b>Total W. R. Grace &amp; Co. Shareholders' Equity (Deficit)</b>	<b>250.8</b>	159.4
Noncontrolling interests	<b>8.6</b>	8.1
<b>Total Equity (Deficit)</b>	<b>259.4</b>	167.5
<b>Total Liabilities and Equity (Deficit)</b>	<b>\$ 4,460.0</b>	\$ 4,494.0

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

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## W. R. Grace &amp; Co. and Subsidiaries

## Consolidated Statements of Equity (Deficit) (unaudited)

(In millions)	Common Stock and Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity (Deficit)
<b>Balance, December 31, 2010</b>	\$ 456.6	\$ 31.7	\$ (45.9)	\$ (518.1)	\$ 6.9	\$ (68.8)
Net income (loss)		54.2			(0.2)	54.0
Stock plan activity	1.1		2.2			3.3
Other comprehensive income				15.7		15.7
<b>Balance, March 31, 2011</b>	\$ 457.7	\$ 85.9	\$ (43.7)	\$ (502.4)	\$ 6.7	\$ 4.2
<b>Balance, December 31, 2011</b>	\$ 473.6	\$ 301.1	\$ (36.8)	\$ (578.5)	\$ 8.1	\$ 167.5
Net income		60.9			0.4	61.3
Stock plan activity	6.2		8.1			14.3
Other comprehensive income				16.2	0.1	16.3
<b>Balance, March 31, 2012</b>	\$ 479.8	\$ 362.0	\$ (28.7)	\$ (562.3)	\$ 8.6	\$ 259.4

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

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**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 three operating segments: Grace Catalysts Technologies, which includes catalysts and related products used in refining, petrochemical and other chemical manufacturing applications; Grace Materials Technologies, which includes packaging technologies and engineered materials, used in consumer, industrial, and pharmaceutical 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 2011 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. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the three-month interim period ended March 31, 2012 are not necessarily indicative of the results of operations for the year ending December 31, 2012.

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**Notes to Consolidated Financial Statements (Continued)**

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

**Reclassifications** Certain amounts in prior years' Consolidated Financial Statements have been reclassified to conform to the current year 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 and litigation (see Notes 2 and 3), income taxes (see Note 7), and environmental remediation (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);

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; and

Recoverability of goodwill, which depends on assumptions used to value reporting units, such as observable market inputs, projections of future cash flows and weighted average cost of capital.

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 May 2011, the FASB issued ASU 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS". This update provides additional guidance and expands the disclosure requirements related to certain aspects of fair value measurement, primarily affecting financial instruments and Level 3 assets. The new disclosures and clarifications of existing disclosures are effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years; early adoption is not permitted. Grace adopted this standard for the first quarter of 2012 and it did not have a material effect on the Consolidated Financial Statements.

In June 2011, the FASB issued ASU 2011-05 "Presentation of Comprehensive Income". This update is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The new disclosure requirements are effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years, with early adoption permitted. In December 2011, the FASB issued ASU 2011-12 "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". This update defers certain paragraphs of ASU 2011-05 pertaining to reclassification adjustments out of accumulated other comprehensive income. Grace will continue

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**Notes to Consolidated Financial Statements (Continued)**

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

to report its Consolidated Statements of Comprehensive Income as a separate financial statement; however, it has been moved to immediately follow the Consolidated Statements of Operations to comply with the updates that have not been deferred. Grace will adopt the deferred updates to this standard when they become applicable and does not expect them to have a material effect on the Consolidated Financial Statements.

In December 2011, the FASB issued ASU 2011-11 "Disclosures about Offsetting Assets and Liabilities". This update is intended to improve the comparability of statements of financial position prepared in accordance with U.S. GAAP and IFRS, requiring both gross and net presentation of offsetting assets and liabilities. The new requirements are effective for fiscal years beginning on or after January 1, 2013, and for interim periods within those fiscal years. Grace will adopt this standard for 2013 and does not expect it to have a material effect on the Consolidated Financial Statements.

**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 (as amended to date, the "Joint Plan"). The committee representing general unsecured creditors, the PD Committee and the PD FCR are not co-proponents of the Joint Plan. On January 31, 2011, the Bankruptcy Court issued an order confirming the Joint Plan. On January 31, 2012, the United States District Court for the District of Delaware (the "District Court") issued an order affirming the Bankruptcy Court's confirmation order, denying all appeals of the confirmation order and confirming the Joint Plan in its entirety. Appeals have been filed and further appeals may be filed challenging the District Court order confirming the Joint Plan. The resolution of any such appeals could have a material effect on the terms and timing of Grace's emergence from Chapter 11. In order for the Joint Plan to become effective, all conditions to the effective date set forth in the Joint Plan must be satisfied or waived.

**Plans of Reorganization** Prior to 2008, competing plans of reorganization were filed by Grace and jointly by the PI Committee and the PI FCR. Grace filed its first proposed plan with the Bankruptcy Court in November 2004 and amended it in January 2005 (the "Prior Plan"). However, in April 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

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**Notes to Consolidated Financial Statements (Continued)**

**2. Chapter 11 Information (Continued)**

claims (the "PI Settlement"). 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, in September 2008, the Debtors, supported by the Equity Committee, the PI Committee and the PI FCR, as co-proponents, filed the Joint Plan to reflect the terms of the PI Settlement. The Joint Plan supersedes all previously filed plans.

In November 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 Committee designed to resolve all present and future U.S. ZAI property damage claims and demands.

In January 2011, the Company, Grace Canada, Inc. and legal representatives of Canadian ZAI property damage claimants became parties to an agreement that would settle all Canadian ZAI property damage claims and demands (the "Canadian ZAI Settlement"). Under that agreement, 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 Canadian ZAI Settlement is subject to the effectiveness of the Joint Plan.

The Joint Plan is designed to address all pending and future asbestos-related claims and all other pre-petition claims as outlined therein. 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"). Amendments and technical modifications to the Joint Plan and several associated documents were filed by the Debtors and co-proponents on nine occasions from December 2008 through December 2010 to, among other things, reflect the agreements described above.

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.

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 District Court. All classes of creditors entitled to vote accepted the Joint Plan in May 2009. 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. Objections to the Joint Plan have generally related to demands for interest at rates higher than provided for in the Joint Plan,



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**Notes to Consolidated Financial Statements (Continued)**

**2. Chapter 11 Information (Continued)**

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. On January 31, 2011, the Bankruptcy Court issued an order confirming the Joint Plan and overruling all objections. On January 31, 2012, the District Court issued an order affirming the Bankruptcy Court's confirmation order, denying all appeals of the confirmation order and confirming the Joint Plan in its entirety. In order for the Joint Plan to become effective, all conditions for effectiveness set forth in the Joint Plan must be satisfied or waived.

Agreements have been reached among Grace, the PI Committee, BNSF railroad and the representatives of Libby, Montana, asbestos personal injury claimants to settle certain objections to the Joint Plan. The agreements are subject to the approval of the Bankruptcy Court. Pursuant to the agreements, the objections to the Joint Plan by the Libby claimants and BNSF would be settled, and those parties would forego any further appeals to the confirmation of the Joint Plan. Among the items covered in the agreements is a requirement for Grace to transfer responsibility for the current Grace-operated Libby Medical Program to a locally administered trust (whose formation is subject to the approval of a Montana court), and to fund the trust with a one-time payment of \$19.5 million. Payments to Libby claimants under the Joint Plan are not affected by the Grace-Libby agreement. Grace expects to record an expense of \$19.5 million when the necessary court approvals are obtained.

Appeals have been filed and further appeals may be filed in the federal appellate court challenging the District Court order confirming the Joint Plan. Such appeals may take a significant period of time to resolve and, while they are pending, certain conditions to the effectiveness of the Joint Plan, including for example, payments pursuant to the Sealed Air Settlement and the Fresenius Settlement and the availability of the third-party funding that Grace requires to fund the Joint Plan, might not be satisfied. If any such appeals are resolved adversely to Grace and the other Joint Plan proponents, the Joint Plan may not become effective, which could have a material effect on the terms and timing of Grace's emergence from Chapter 11. In that instance, and if the Joint Plan cannot be amended to address any deficiencies identified by the appellate 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. 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 would be significantly affected by the amount of Debtors' asbestos-related liability established under a different plan of reorganization.

**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;

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**Notes to Consolidated Financial Statements (Continued)**

**2. Chapter 11 Information (Continued)**

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 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 \$152 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 Canadian ZAI Settlement.

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**Notes to Consolidated Financial Statements (Continued)**

**2. Chapter 11 Information (Continued)**

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 of the Joint Plan, 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 at the default rate specified under the terms of the underlying credit agreements which, at the time of their court filings in April 2011 they asserted, was approximately an additional \$140 million and growing (Grace believes that if default interest was ultimately determined to be payable, the additional amount of accrued interest would be substantially less than that asserted by the general unsecured creditors.). The Bankruptcy Court and the District Court have overruled this assertion and the general unsecured creditors that hold pre-petition bank debt have appealed these rulings to the appellate court. Unsecured employee-related claims such as pension, retirement medical obligations and workers compensation claims would be reinstated.

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**Notes to Consolidated Financial Statements (Continued)**

**2. Chapter 11 Information (Continued)**

*Effect on Company Common Stock*

The Joint Plan provides 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 common 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 common 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 the Company) 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 claims 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 March 31, 2003 claims 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, claims 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. Under the Joint Plan, the medical monitoring claims would be channeled to the PI Trust for resolution. In addition, approximately 800 proofs of claim were filed after the claims 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 employee benefit plans. As of March 31, 2012, approximately 255 of these claims remain pending and are to 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 amounts due under pre-petition credit facilities, leases and other contracts, environmental remediation, taxes, and non-asbestos-related personal injury. As of March 31, 2012, of the approximately 3,300 of these claims filed, approximately 120 claims remain pending and are to be addressed through the claim objection process and the dispute resolution procedures approved by the Bankruptcy Court. As of March 31, 2012, of the approximately 4,335 non-ZAI PD Claims filed, approximately 20 claims remain pending and are 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.

Additionally, by order dated June 17, 2008, the Bankruptcy Court established October 31, 2008 as the claims bar date for ZAI PD Claims related to property located in the U.S. Approximately 17,960 U.S. ZAI PD Claims were filed prior to the October 31, 2008 claims bar date and, as of March 31, 2012 an additional 1,310 U.S. ZAI PD Claims were filed. Under the Canadian ZAI

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**Notes to Consolidated Financial Statements (Continued)**

**2. Chapter 11 Information (Continued)**

Settlement, all Canadian ZAI PD Claimants who filed a proof of claim by December 31, 2009, would be entitled to seek compensation from the Canadian ZAI PD Claims Fund. Approximately 14,100 Canadian ZAI PD Claims were filed by December 31, 2009. The Joint Plan provides for the channeling of U.S. 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 claims 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 claims 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."

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 ASC 852 "Reorganizations". 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 March 31, 2012, 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.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****2. Chapter 11 Information (Continued)**

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 March 31, 2012, was \$1,305 million comprised of \$115 million in cash from Fresenius and \$1,190 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.

Components of liabilities subject to compromise are as follows:

<b>(In millions)</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Asbestos-related contingencies	\$ 1,700.0	\$ 1,700.0
Pre-petition bank debt plus accrued interest	914.6	907.3
Environmental contingencies	146.3	149.9
Unfunded special pension arrangements	129.5	129.0
Income tax contingencies	70.3	69.3
Postretirement benefits other than pension	64.1	64.6
Drawn letters of credit plus accrued interest	34.9	34.5
Accounts payable	31.3	31.3
Retained obligations of divested businesses	29.0	28.4
Other accrued liabilities	92.0	89.8
Reclassification to current liabilities(1)	(9.3)	(8.4)
<b>Total Liabilities Subject to Compromise</b>	<b>\$ 3,202.7</b>	<b>\$ 3,195.7</b>

(1) As of March 31, 2012 and December 31, 2011, approximately \$9.3 million and \$8.4 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 "Compensation Retirement Benefits".

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 March 31, 2012.

<b>(In millions) (Unaudited)</b>	<b>Cumulative Since Filing</b>
Balance, Filing Date April 2, 2001	\$ 2,366.0
<b>Cash disbursements and/or reclassifications under Bankruptcy Court orders:</b>	
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	(364.9)
<b>Expense/(income) items:</b>	
Interest on pre-petition liabilities	519.5
Employee-related accruals	115.2
Provision for asbestos-related contingencies	744.8
Provision for environmental contingencies	352.7
Provision for income tax contingencies	(98.8)
Balance sheet reclassifications	(35.0)
<b>Balance, end of period</b>	<b>\$ 3,202.7</b>

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 three months ended March 31, 2012 and 2011 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, at the time of their court filings in April 2011, they asserted was approximately \$140 million greater than the interest currently accrued and growing (Grace believes that if default interest was ultimately determined to be payable, the additional amount of accrued interest would be substantially less than that asserted by the general unsecured creditors.). The Bankruptcy Court and the District Court have overruled this assertion and the general unsecured creditors that hold pre-petition bank debt have appealed these rulings to the appellate court.

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*

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Legal and financial advisory fees	\$ 4.7	\$ 6.0
Interest income	(0.2)	(0.2)
Chapter 11 expenses, net of interest income	\$ 4.5	\$ 5.8

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**

<b>(In millions) (Unaudited)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net sales, including intercompany	\$ 364.3	\$ 314.3
Cost of goods sold, including intercompany, exclusive of depreciation and amortization shown separately below	226.0	183.2
Selling, general and administrative expenses	67.5	65.2
Defined benefit pension expense	13.5	11.6
Depreciation and amortization	16.5	16.9
Chapter 11 expenses, net of interest income	4.5	5.8
Research and development expenses	9.3	9.0
Interest expense and related financing costs	10.3	9.8
Restructuring expenses	2.4	0.2
Provision for environmental remediation	0.4	
Other income, net	(12.6)	(14.0)
	337.8	287.7
Income before income taxes and equity in net income of non-filing entities	26.5	26.6
Provision for income taxes	(10.0)	(10.7)
Income before equity in net income of non-filing entities	16.5	15.9
Equity in net income of non-filing entities	44.4	38.3
<b>Net income attributable to W. R. Grace &amp; Co. shareholders</b>	<b>\$ 60.9</b>	<b>\$ 54.2</b>





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## 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**

<b>(In millions) (Unaudited)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Net income attributable to W. R. Grace & Co. shareholders	\$ 60.9	\$ 54.2
<b>Reconciliation to net cash used for operating activities:</b>		
Depreciation and amortization	16.5	16.9
Equity in net income of non-filing entities	(44.4)	(38.3)
Provision for income taxes	10.0	10.7
Income taxes paid, net of refunds	(0.2)	(15.4)
Defined benefit pension expense	13.5	11.6
Payments under defined benefit pension arrangements	(110.7)	(204.5)
Changes in assets and liabilities, excluding the effect of foreign currency translation:		
Trade accounts receivable	6.3	(21.6)
Inventories	11.5	(16.5)
Accounts payable	(23.9)	24.2
All other items, net	(23.0)	(13.3)
<b>Net cash used for operating activities</b>	<b>(83.5)</b>	<b>(192.0)</b>
<b>Investing Activities</b>		
Capital expenditures	(15.7)	(13.3)
Transfer to restricted cash and cash equivalents	(6.9)	
Other		0.2
<b>Net cash used for investing activities</b>	<b>(22.6)</b>	<b>(13.1)</b>
<b>Net cash provided by (used for) financing activities</b>	<b>12.9</b>	<b>(1.3)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(93.2)</b>	<b>(206.4)</b>
Cash and cash equivalents, beginning of period	788.6	787.2
Cash and cash equivalents, end of period	\$ 695.4	\$ 580.8

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## 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)	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 695.4	\$ 788.6
Restricted cash and cash equivalents	89.8	82.9
Trade accounts receivable, net	119.2	125.5
Accounts receivable - unconsolidated affiliate	13.2	10.2
Receivables from non-filing entities, net	150.4	143.1
Inventories	148.5	160.0
Other current assets	62.5	67.3
<b>Total Current Assets</b>	<b>1,279.0</b>	<b>1,377.6</b>
Properties and equipment, net	418.0	418.8
Deferred income taxes	721.9	752.7
Asbestos-related insurance	500.0	500.0
Loans receivable from non-filing entities, net	371.9	362.3
Investment in non-filing entities	369.4	333.6
Investment in unconsolidated affiliate	76.4	70.8
Other assets	60.6	63.7
<b>Total Assets</b>	<b>\$ 3,797.2</b>	<b>\$ 3,879.5</b>
<b>LIABILITIES AND EQUITY (DEFICIT)</b>		
<b>Liabilities Not Subject to Compromise</b>		
Current liabilities (including \$7.5 due to unconsolidated affiliate) (2011 \$3.5)	\$ 212.6	\$ 250.7
Underfunded defined benefit pension plans	75.9	215.5
Other liabilities (including \$19.4 due to unconsolidated affiliate) (2011 \$18.3)	55.1	58.1
<b>Total Liabilities Not Subject to Compromise</b>	<b>343.6</b>	<b>524.3</b>
<b>Liabilities Subject to Compromise</b>	<b>3,202.7</b>	<b>3,195.7</b>
<b>Total Liabilities</b>	<b>3,546.3</b>	<b>3,720.0</b>
<b>Total W. R. Grace &amp; Co. Shareholders' Equity (Deficit)</b>	<b>250.8</b>	<b>159.4</b>
Noncontrolling interests in Chapter 11 filing entities	0.1	0.1
<b>Total Equity (Deficit)</b>	<b>250.9</b>	<b>159.5</b>
<b>Total Liabilities and Equity (Deficit)</b>	<b>\$ 3,797.2</b>	<b>\$ 3,879.5</b>

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 with the Bankruptcy Court. This information is available to the public through the Bankruptcy Court. This information is prepared in a format that may not be comparable to information in Grace's quarterly and annual financial statements as filed with the SEC. These statements and schedules are not audited and do not purport to represent the financial position or results of operations of Grace on a consolidated basis.



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**Notes to Consolidated Financial Statements (Continued)**

**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. Grace's obligations with respect to present and future asbestos 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, 16 remain unresolved. Eight cases 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 March 31, 2003 claims bar date did not apply to ZAI claims.) Grace objected to virtually all PD claims on a number of legal and factual bases. As of March 31, 2012, approximately 430 PD Claims subject to the March 31, 2003 claims bar date remain outstanding. The Bankruptcy Court has approved settlement agreements covering approximately 410 of such claims for an aggregate allowed amount of \$151.6 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 of homes and that the cost of removal could be several thousand dollars per home. As a result of the Filing, all of these 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 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. In the event the Joint Plan does not become effective, 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 claims 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 March 31, 2012 an additional 1,310 U.S. ZAI PD Claims were filed. As described above, under the Canadian ZAI Settlement, all Canadian ZAI PD Claims filed before December 31, 2009 would be

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**Notes to Consolidated Financial Statements (Continued)**

**3. Asbestos-Related Litigation (Continued)**

eligible to seek compensation from the Canadian ZAI property damage claims fund. Approximately 13,100 Canadian ZAI PD Claims were filed by December 31, 2009.

As described in Note 2, in November 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 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 recorded asbestos-related liability at March 31, 2012, 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 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.

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 March 31, 2012 had such PI Claims not been stayed by the Bankruptcy Court.

The Bankruptcy Court 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 total recorded asbestos-related liability as of March 31, 2012 and December 31, 2011, 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 pre-petition 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 settlements 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. In the event that the Joint Plan becomes effective, the Company will adjust its asbestos-related liabilities to reflect the terms of the Joint Plan which will result in a gain or a loss.

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**Notes to Consolidated Financial Statements (Continued)**

**3. Asbestos-Related Litigation (Continued)**

Any such adjustment will ultimately be determined on the effective date of the Joint Plan and will be primarily impacted by the valuations of the warrant and the deferred payment obligations.

The warrant to acquire 10 million shares of the Company's common stock for \$17 per share will be valued on the effective date of the Joint Plan using a Black-Scholes valuation model. Inputs to this model include the risk free interest rate, the volatility of equity value and the per share price of company stock. The Company estimates that the warrant would have been valued at approximately \$383 million and \$272 million at March 31, 2012 and December 31, 2011, respectively.

The deferred payment obligation of \$110 million per year for five years beginning January 2, 2019 and of \$100 million per year for ten years beginning January 2, 2024 will be recorded at fair value on the effective date of the Joint Plan. The value of these payment obligations is affected by (i) interest rates; (ii) the Company's credit standing and the payment period of the deferred payments, (iii) restrictive covenants and terms of the Company's other credit facilities; (iv) assessment of the risk of a default, which would require us to issue shares of Grace common stock; and (v) the subordination provisions of the deferred payment agreement. The Company estimates that the deferred payment obligations would have been valued at approximately \$398 million and \$365 million at March 31 2012 and December 31, 2011, respectively.

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.

Appeals have been filed and further appeals may be filed in the federal appellate court challenging the District Court order confirming the Joint Plan. If any such appeals are resolved adversely to Grace and the other Joint Plan proponents, the Joint Plan may not become effective. In that case, if the Joint Plan cannot be amended to address any deficiencies identified by the appellate 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.

**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, proceeds from

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**Notes to Consolidated Financial Statements (Continued)**

**3. Asbestos-Related Litigation (Continued)**

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. With one exception, coverage disputes regarding Grace's primary insurance policies have been settled, and the settlement amounts have been paid in full.

Grace has entered into settlement agreements with various excess insurance carriers that are not dependent upon the effectiveness of the Joint Plan. The unpaid maximum aggregate amount available under these settlement agreements is approximately \$487.0 million.

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 yet been triggered. In estimating its ultimate insurance recovery, Grace has assumed that its unsettled excess coverage will be available on terms that are substantially similar to the existing settlement agreements described above.

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 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 \$393.2 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 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 March 31, 2012, 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.



Table of Contents**Notes to Consolidated Financial Statements (Continued)****4. Inventories**

Inventories are stated at the lower of cost or market, and cost is determined using FIFO. Inventories consisted of the following at March 31, 2012 and December 31, 2011:

<b>(In millions)</b>	<b>March 31, December 31,</b>	
	<b>2012</b>	<b>2011</b>
Raw materials	\$ 83.7	\$ 63.1
In process	70.6	48.7
Finished products	171.6	185.9
Other	32.6	31.4
	<b>\$ 358.5</b>	<b>\$ 329.1</b>

**5. Debt****Components of Debt**

<b>(In millions)</b>	<b>March 31, December 31,</b>	
	<b>2012</b>	<b>2011</b>
Debt payable within one year	\$ 59.1	\$ 57.9
Debt payable after one year	3.0	3.3
<b>Debt Subject to Compromise</b>		
Bank borrowings	\$ 500.0	\$ 500.0
Accrued interest on bank borrowings	414.6	407.3
Drawn letters of credit	26.3	26.3
Accrued interest on drawn letters of credit	8.6	8.2
	<b>\$ 949.5</b>	<b>\$ 941.8</b>
Weighted average interest rates on total debt	<b>3.5%</b>	<b>3.5%</b>

At March 31, 2012, the fair value of Grace's debt payable within one year not subject to compromise approximated the recorded value of \$59.1 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 March 31, 2012, the carrying value of Grace's bank debt subject to compromise plus interest was \$949.5 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 "Fair Value Measurements and Disclosures" 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.

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**Notes to Consolidated Financial Statements (Continued)**

**6. Fair Value Measurements and Risk (Continued)**

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 March 31, 2012, the recorded values of other financial instruments such as cash equivalents, short-term investments, and trade receivables and payables approximated their fair values, based on the short-term maturities and floating rate characteristics of these instruments.

*Derivatives*

From time to time, Grace enters into commodity derivatives such as fixed-rate swaps with financial institutions to mitigate the risk of volatility of prices of natural gas 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.

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 March 2013. 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 March 31, 2012, the contract volume, or notional amount, of the commodity contracts was 3.7 million MMBtu (million British thermal units) with a total contract value of \$13.8 million.

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 March 2013. 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 March 31, 2012, the contract volume, or notional amount, of the commodity contracts was 3.0 million pounds with a total contract value of \$3.1 million.

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.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****6. Fair Value Measurements and Risk (Continued)**

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 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 March 31, 2012, the total notional amount related to the remaining outstanding currency forward contracts was €245.6 million. These derivatives are not designated as hedging instruments under ASC 815 "Derivatives and Hedging".

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011:

Items Measured at Fair Value on a Recurring Basis (In millions)	Total	Fair Value Measurements at March 31, 2012 Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Currency derivatives	\$ 12.4	\$	\$ 12.4	\$
Commodity derivatives				
<b>Total Assets</b>	<b>\$ 12.4</b>	<b>\$</b>	<b>\$ 12.4</b>	<b>\$</b>
<b>Liabilities</b>				
Currency derivatives	\$ 0.5	\$	\$ 0.5	\$
Commodity derivatives	4.5		4.5	
<b>Total Liabilities</b>	<b>\$ 5.0</b>	<b>\$</b>	<b>\$ 5.0</b>	<b>\$</b>

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## Notes to Consolidated Financial Statements (Continued)

## 6. Fair Value Measurements and Risk (Continued)

Items Measured at Fair Value on a Recurring Basis (In millions)	Total	Fair Value Measurements at December 31, 2011 Using		
		Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Currency derivatives	\$ 20.4	\$	\$ 20.4	\$
Commodity derivatives				
<b>Total Assets</b>	<b>\$ 20.4</b>	<b>\$</b>	<b>\$ 20.4</b>	<b>\$</b>
<b>Liabilities</b>				
Currency derivatives	\$ 0.5	\$	\$ 0.5	\$
Commodity derivatives	3.8		3.8	
<b>Total Liabilities</b>	<b>\$ 4.3</b>	<b>\$</b>	<b>\$ 4.3</b>	<b>\$</b>

The following tables present the location and fair values of derivative instruments included in the Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011:

Fair Values of Derivative Instruments at March 31, 2012 (In millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments under ASC 815:</b>				
Commodity contracts	Other current assets	\$	Other current liabilities	\$ 4.5
Currency contracts	Other current assets	0.3	Other current liabilities	0.1
<b>Derivatives not designated as hedging instruments under ASC 815:</b>				
Currency contracts	Other current assets	6.3	Other current liabilities	0.4
Currency contracts	Other assets	5.8	Other liabilities	
<b>Total derivatives</b>		<b>\$ 12.4</b>		<b>\$ 5.0</b>

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## Notes to Consolidated Financial Statements (Continued)

## 6. Fair Value Measurements and Risk (Continued)

Fair Values of Derivative Instruments at December 31, 2011 (In millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments under ASC 815:</b>				
Commodity contracts	Other current assets	\$	Other current liabilities	\$ 3.8
Currency contracts	Other current assets		Other current liabilities	0.4
<b>Derivatives not designated as hedging instruments under ASC 815:</b>				
Currency contracts	Other current assets	13.1	Other current liabilities	0.1
Currency contracts	Other assets	7.3	Other liabilities	
<b>Total derivatives</b>		<b>\$ 20.4</b>		<b>\$ 4.3</b>

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 months ended March 31, 2012 and 2011:

The Effect of Derivative Instruments on the Consolidated Statement of Operations for the Three Months Ended March 31, 2012 (In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (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)
<b>Derivatives in ASC 815 cash flow hedging relationships:</b>			
Currency contracts	\$ 0.2	Cost of goods sold	\$ (0.2)
Commodity contracts	(2.8)	Cost of goods sold	(2.2)
<b>Total derivatives</b>	<b>\$ (2.6)</b>		<b>\$ (2.4)</b>

Derivatives not designated as hedging instruments under ASC 815:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives
Currency contracts	Other income (expense)	\$ (8.9)



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## 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 March 31, 2011 (In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (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)
<b>Derivatives in ASC 815 cash flow hedging relationships:</b>			
Currency contracts	\$ 0.1	Cost of goods sold	\$
Commodity contracts	0.1	Cost of goods sold	(0.9)
<b>Total derivatives</b>	<b>\$ 0.2</b>		<b>\$ (0.9)</b>

Derivatives not designated as hedging instruments under ASC 815:	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives
Currency contracts	Other income (expense)	\$ (16.5)

*Debt and Interest Rate Swap Agreements*

Grace was not a party to any debt or interest rate swaps at March 31, 2012 and December 31, 2011.

*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

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As of March 31, 2012, the income tax provision on 2012 forecasted income before discrete items was estimated to be 33.3% as compared to 32.5% for the same period in the prior year.

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



Table of Contents**Notes to Consolidated Financial Statements (Continued)****7. Income Taxes (Continued)**

for tax years that remain subject to examination by the relevant taxing authorities. The following table summarizes these open tax years by major jurisdiction:

<b>Tax Jurisdiction(1)</b>	<b>Examination</b>	
	<b>Examination in Progress</b>	<b>Not Yet Initiated</b>
United States Federal	2007 - 2009	2010 - 2011
United States State	1997 - 2009	2010 - 2011
Germany	2006 - 2008	2009 - 2011
United Kingdom	None	2006 - 2011
Italy	None	2007 - 2011
France	None	2008 - 2011
Canada	None	2005 - 2011

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

As a large taxpayer, Grace is under continual audit by the various tax authorities on open-year tax positions. Grace believes it is reasonably possible that the amount of the liability for unrecognized tax benefits could change in the next 12 months, including material changes with respect to the following two 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 \$41.4 million to \$73.0 million (including interest) and Grace would also expect to accelerate recognition of a deferred charge of \$7.3 million.
2. As a result of expected statute of limitations expirations and the resolution of examination issues and settlements with U.S. federal, state and foreign tax authorities, it is reasonably possible that the amount of unrecognized tax benefits would decrease during the next 12 months by up to \$6.6 million.

In December 2010, Grace and the Commissioner of the Department of Revenue for the Commonwealth of Massachusetts entered into a settlement agreement resolving all claims for pre-petition taxes and interest for the taxable years 1990 through 1999 for \$15.0 million. The settlement was approved by the U.S. Bankruptcy Court, and Grace made the payment to the Commonwealth of Massachusetts in January 2011.

Grace accrues potential interest and any associated penalties related to uncertain tax positions in "provision for income taxes" in the Consolidated Statements of Operations. The total amount of interest and penalties accrued on uncertain tax positions was \$9.4 million (\$7.2 million net of applicable tax benefits) and \$8.8 million (\$6.9 million net of applicable tax benefits) as of March 31, 2012 and December 31, 2011, respectively.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****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:

<b>(In millions)</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Overfunded defined benefit pension plans	\$ 33.3	\$ 37.1
Underfunded defined benefit pension plans	(90.3)	(228.0)
Unfunded defined benefit pension plans	(203.2)	(179.4)
Total underfunded and unfunded defined benefit pension plans	(293.5)	(407.4)
Unfunded defined benefit pension plans included in liabilities subject to compromise	(123.7)	(123.3)
Pension liabilities included in other current liabilities	(13.7)	(13.2)
Net funded status	\$ (397.6)	\$ (506.8)

Fully-funded plans include several advance-funded plans where the fair value of the plan assets exceeds the projected benefit obligation ("PBO"). This group of plans was overfunded by \$33.3 million as of March 31, 2012, 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. Unfunded plans include several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO is unfunded. The combined balance of the underfunded and unfunded plans was \$430.9 million as of March 31, 2012 and is presented as a liability on the Consolidated Balance Sheets as follows: \$13.7 million in "other current liabilities"; \$293.5 million included in "underfunded and unfunded defined benefit pension plans", of which \$90.3 million relates to underfunded plans and \$203.2 million relates to unfunded plans; and \$123.7 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, 2011 measurement date for Grace's defined benefit pension plans, the PBO was approximately \$1,757 million as measured under U.S. GAAP. The PBO basis reflects the present value (using a 4.50% discount rate for U.S. plans and a 4.83% weighted average discount rate for non-U.S. plans as of December 31, 2011) of vested and non-vested benefits earned from employee service to date, based upon current services and estimated future pay increases for active employees.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****8. Pension Plans and Other Postretirement Benefit Plans (Continued)**

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 rereasurement 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 4.50% as of December 31, 2011 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 March 31, 2012, Grace did not change the discount rate for the U.S. qualified pension plans from the 4.50% rate in effect at December 31, 2011. 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, 2011. Based on review of the yield curve analyses for these plans as of March 31, 2012, Grace changed the discount rate for Germany from 4.50% at December 31, 2011 to 3.75% at March 31, 2012, and for Canada from 5.25% at December 31, 2011 to 4.75% at March 31, 2012. Grace did not change the discount rate for the United Kingdom from the 4.75% rate in effect at December 31, 2011. The funded status as of March 31, 2012 reflects an increase in total liabilities of approximately \$22 million as compared to December 31, 2011, resulting from the change in discount rates.

**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 1993 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 2012 measurement purposes, per capita costs, before retiree contributions, were assumed to initially increase at a rate of 9.50%. The rate of increase is assumed to decrease gradually to 5% through 2020 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.

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## Notes to Consolidated Financial Statements (Continued)

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

*Components of Net Periodic Benefit Cost*

(In millions)	Three Months Ended March 31,							
	2012				2011			
	Pension		Other Post Retirement		Pension		Other Post Retirement	
	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.
Service cost	\$ 5.5	\$ 2.3	\$ 0.1	\$ 4.7	\$ 2.2	\$ 0.1		
Interest cost	14.2	5.5	0.6	15.3	5.6	0.8		
Expected return on plan assets	(15.0)	(3.7)		(16.5)	(4.0)			
Amortization of prior service cost	0.2			0.3				
Amortization of net deferred actuarial loss	8.6	1.2	0.2	7.8	1.1	0.1		
Net periodic benefit cost	\$ 13.5	\$ 5.3	\$ 0.9	\$ 11.6	\$ 4.9	\$ 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 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 February 21, 2012, Grace obtained Bankruptcy Court approval to fund minimum required payments under the U.S. qualified pension plans of approximately \$26 million and an accelerated contribution of up to \$83 million in 2012. In that regard, Grace contributed approximately \$109 million in the first quarter of 2012 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 months ended March 31, 2012 was \$3.4 million compared with \$3.1 million for the prior-year period.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****9. Other Balance Sheet Accounts**

<b>(In millions)</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>Other Assets</b>		
Patents, licenses and other intangible assets, net	\$ 68.9	\$ 70.6
Deferred charges	20.8	21.3
Fair value of currency forward contracts	5.8	7.3
Other assets	9.4	9.4
	\$ 104.9	\$ 108.6
<b>Other Current Liabilities</b>		
Accrued compensation	\$ 69.1	\$ 97.8
Income tax payable	59.0	48.3
Customer volume rebates	28.3	35.3
Accrued commissions	6.7	10.6
Accrued Chapter 11 reorganization expenses	6.7	5.5
Fair value of currency forward and commodity contracts	5.0	4.3
Deferred tax liability	0.3	0.3
Other accrued liabilities	116.0	111.9
	\$ 291.1	\$ 314.0

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**

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.

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**Notes to Consolidated Financial Statements (Continued)**

**10. Commitments and Contingent Liabilities (Continued)**

*Estimated Investigation and Remediation Costs*

At March 31, 2012, Grace's estimated liability for environmental investigation and remediation costs totaled \$147.5 million, compared with \$151.2 million at December 31, 2011. These amounts are based on funding and/or remediation agreements in place, including the Multi-Site Agreement described below, and Grace's estimate of costs for sites not subject to a formal remediation plan for which sufficient information is available to estimate investigation and remediation costs. Net cash expenditures charged against previously established reserves for the three months ended March 31, 2012 and 2011 were \$4.4 million and \$2.4 million, respectively.

**Vermiculite Related Matters**

Grace purchased a vermiculite mine in Libby, Montana in 1963 and operated it until 1990. Vermiculite concentrate from the Libby mine was used in the manufacture of attic insulation and other products. Some of the vermiculite ore that was mined at the Libby mine contained naturally occurring asbestos. The U.S. Environmental Protection Agency (EPA) has investigated sites, including sites owned by Grace, which used, stored or processed vermiculite concentrate from the Libby mine. Grace and other potentially responsible parties have conducted investigations and/or remedial actions at those sites identified by EPA as requiring remedial action.

During 2010, EPA began reinvestigating up to 105 facilities where vermiculite concentrate from the Libby mine was processed. Grace is cooperating with EPA on this reinvestigation. During the 2011 fourth quarter, EPA requested that Grace conduct additional remediation at seven of these facilities based on revised risk-based criteria developed by EPA. It is probable that EPA will request additional remediation at other facilities. Grace does not have sufficient information to identify either the sites that might require additional remediation or the cost of any additional remediation. Grace will continue to monitor EPA reinvestigation of the remaining sites and assess any information received from EPA. A liability will be recorded in the future should the Company determine that an obligation is probable and reasonably estimable.

Grace's total estimated liability for asbestos remediation studies and other estimable matters related to its former vermiculite operations in Libby, as well as the cost of remediation at vermiculite processing sites outside of Libby, at March 31, 2012 and December 31, 2011 was \$64.6 million and \$67.2 million, respectively, excluding interest where applicable. This estimated liability does not include the cost to remediate the Libby mine or costs related to any additional EPA claims, whether resulting from EPA's reinvestigation or otherwise, which may be material but are not currently estimable. It is probable that Grace's ultimate liability will exceed current estimates by material amounts. Grace's current recorded liability will be adjusted as Grace receives new information and amounts become reasonably estimable.

**Non-Vermiculite Related Matters**

At March 31, 2012 and December 31, 2011, Grace's estimated liability for remediation of sites not related to its former vermiculite mining and processing activities was \$82.9 million and \$84.0 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 is available. As Grace receives new information and continues its claims evaluation process, its estimated liability may change materially.

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**Notes to Consolidated Financial Statements (Continued)**

**10. Commitments and Contingent Liabilities (Continued)**

*Multi-Site Settlement*

EPA 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 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 is implementing 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 related to the Grace-owned Libby vermiculite mine and the surrounding bodies of water and forest lands. Grace is working in cooperation with EPA to investigate these areas. The settlement amount under the Multi-Site Agreement is payable upon Grace's emergence from Chapter 11.

**Purchase Commitments** Grace uses purchase commitments to ensure supply and to minimize the volatility of major components of direct manufacturing costs including natural gas, certain metals, rare earths, 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 products 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.

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

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.

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 March 31, 2012, Grace had gross financial assurances issued and outstanding of \$250.8 million, composed of \$106.2 million of surety bonds issued by various insurance companies and \$144.6 million of standby letters of credit and other financial assurances issued by various banks; \$80.3 million of these financial assurances have been issued under the letter of credit facility.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****10. Commitments and Contingent Liabilities (Continued)**

**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 March 31, 2012.

**11. Restructuring Expenses and Related Asset Impairments**

In the first quarter of 2012, Grace took cost reduction and restructuring actions as a result of the realignment of the businesses and corporate structure. Grace incurred \$3.0 million (\$0.7 million in Construction Products, \$0.5 million in Materials Technologies, \$0.3 million in Catalysts Technologies and \$1.5 million in Corporate) of restructuring expenses and related asset impairments during the first quarter of 2012, compared to \$0.2 million during the first quarter of 2011. Substantially all costs related to the restructuring programs are expected to be paid by December 31, 2012.

<b>Restructuring Expenses and Related Asset Impairments (In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Severance and other employee related costs	\$ 2.9	\$ 0.2
Asset impairments and other restructuring costs	0.1	
<b>Total restructuring expenses and related asset impairments</b>	<b>\$ 3.0</b>	<b>\$ 0.2</b>

**Restructuring Liability  
(In millions)**

	<b>Total</b>
Balance at December 31, 2011	\$ 5.9
Accruals for severance and other employee related costs	2.9
Payments	(2.2)
Currency translation adjustments and other	
<b>Balance at March 31, 2012</b>	<b>\$ 6.6</b>

**12. Other Income, net**

Components of other income, net are as follows:

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Translation effects intercompany loans	\$ (9.6)	\$ (19.7)
Value of currency forward contracts intercompany loans	8.1	16.5
Other currency transaction effects	1.1	1.7
Interest income	(0.1)	(0.3)



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Net loss on sales of investments and disposals of assets	<b>0.2</b>	0.1
Other miscellaneous income	<b>(0.3)</b>	(0.5)
<b>Total other income, net</b>	<b>\$ (0.6)</b>	<b>\$ (2.2)</b>

Table of Contents**Notes to Consolidated Financial Statements (Continued)****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 months ended March 31, 2012 and 2011:

<b>Three Months Ended March 31, 2012</b> <b>(In millions)</b>	<b>Pre-Tax Amount</b>	<b>Tax Benefit/ (Expense)</b>	<b>After-Tax Amount</b>
Defined benefit pension and other postretirement plans:			
Amortization of net prior service cost included in net periodic benefit cost	\$ 0.2	\$ (0.1)	\$ 0.1
Amortization of net deferred actuarial loss included in net periodic benefit cost	10.0	(3.4)	6.6
Other changes in funded status	7.5	(4.1)	3.4
<b>Benefit plans, net</b>	<b>17.7</b>	<b>(7.6)</b>	<b>10.1</b>
Currency translation adjustments	6.2		6.2
Gain (loss) from hedging activities	(0.2)	0.1	(0.1)
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$ 23.7	\$ (7.5)	\$ 16.2

<b>Three Months Ended March 31, 2011</b> <b>(In millions)</b>	<b>Pre-Tax Amount</b>	<b>Tax Benefit/ (Expense)</b>	<b>After-Tax Amount</b>
Defined benefit pension and other postretirement plans:			
Amortization of net prior service cost included in net periodic benefit cost	\$ 0.3	\$ (0.1)	\$ 0.2
Amortization of net deferred actuarial loss included in net periodic benefit cost	9.0	(3.1)	5.9
Other changes in funded status	10.9	(3.8)	7.1
<b>Benefit plans, net</b>	<b>20.2</b>	<b>(7.0)</b>	<b>13.2</b>
Currency translation adjustments	1.8		1.8
Gain (loss) from hedging activities	1.1	(0.4)	0.7
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$ 23.1	\$ (7.4)	\$ 15.7

The following table presents the components of Grace's accumulated other comprehensive loss at March 31, 2012 and December 31, 2011:

<b>Components of Accumulated Other Comprehensive Loss</b> <b>(In millions)</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Defined benefit pension and other postretirement plans:		
Net prior service cost (net of tax)	\$ (1.7)	\$ (1.8)
Net deferred actuarial loss (net of tax)	(593.4)	(603.4)
<b>Benefit plans, net</b>	<b>(595.1)</b>	<b>(605.2)</b>
Currency translation	36.4	30.2
Hedging activities, net of tax	(2.8)	(2.7)
Unrealized loss on investment	(0.8)	(0.8)
Accumulated other comprehensive loss	\$ (562.3)	\$ (578.5)



Table of Contents**Notes to Consolidated Financial Statements (Continued)****13. Other Comprehensive Income (Loss) (Continued)**

Accumulated other comprehensive loss related to the defined benefit pension and other postretirement plans at March 31, 2012 and December 31, 2011, respectively, represents the accumulation of net deferred actuarial losses of \$593.4 million and \$603.4 million as well as net prior service costs of \$1.7 million and \$1.8 million. These amounts are net of tax and are amortized as a component of net periodic benefit cost. For the three months ended March 31, 2012 and 2011, the pre-tax expense recognized related to prior service costs was \$0.2 million and \$0.3 million, respectively, and the pre-tax expense recognized for amortization of accumulated actuarial losses was \$10.0 million and \$9.0 million, respectively. In addition, pre-tax income of \$7.5 million and \$10.9 million was recognized for changes in funded status during the three months ended March 31, 2012 and 2011, 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.

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 March 31,	
	2012	2011
<b>Numerators</b>		
Net income attributable to W. R. Grace & Co. shareholders	\$ 60.9	\$ 54.2
<b>Denominators</b>		
Weighted average common shares basic calculation	74.3	73.2
Dilutive effect of employee stock options	2.1	1.9
Weighted average common shares diluted calculation	76.4	75.1
<b>Basic earnings per share</b>	<b>\$ 0.82</b>	<b>\$ 0.74</b>
<b>Diluted earnings per share</b>	<b>\$ 0.80</b>	<b>\$ 0.72</b>

There were no anti-dilutive options outstanding for the quarters ended March 31, 2012 and 2011. The effect of the warrant for 10 million shares that would be issued under the Joint Plan, as discussed in Note 2, is not included in diluted earnings per share since it has not yet been issued.

**15. Operating Segment Information**

Grace is a global producer of specialty chemicals and specialty materials. In the 2012 first quarter, Grace announced a realignment of its business into three operating segments: Grace Catalysts Technologies, Grace Materials Technologies, and Grace Construction Products. Grace made this change to align its operating segments more closely with the markets it serves, and to



Table of Contents**Notes to Consolidated Financial Statements (Continued)****15. Operating Segment Information (Continued)**

better position its businesses to realize operational efficiencies and reduce overhead costs. Grace Catalysts Technologies includes catalysts and related products used in refining, petrochemical and other chemical manufacturing applications. Grace's Advanced Refining Technologies (ART) joint venture is managed in this segment. ART is an unconsolidated affiliate, and Grace accounts for ART using the equity method as discussed in Note 16. Grace Materials Technologies includes packaging technologies and engineered materials, coatings and sealants used in consumer, industrial, and pharmaceutical applications. Grace Construction Products includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction. Intersegment sales are eliminated in consolidation. The table below presents information related to Grace's operating segments. Only those corporate expenses directly related to the operating segments are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

Grace also excludes defined benefit pension expense from the calculation of segment operating income. Grace believes that the exclusion of defined benefit pension expense provides a better indicator of its operating segment performance as defined benefit pension expense is not managed at an operating segment level.

Grace defines Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense, income taxes, net Chapter 11- and asbestos-related costs, restructuring expenses and related asset impairments, divestment expenses, and gains and losses on sales of product lines and other investments.

**Operating Segment Data**

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net Sales</b>		
Grace Catalysts Technologies	\$ 313.2	\$ 275.7
Grace Materials Technologies	212.9	212.4
Grace Construction Products	228.3	207.6
<b>Total</b>	<b>\$ 754.4</b>	<b>\$ 695.7</b>
<b>Adjusted EBIT</b>		
Grace Catalysts Technologies segment operating income	\$ 99.2	\$ 77.9
Grace Materials Technologies segment operating income	35.8	40.4
Grace Construction Products segment operating income	20.5	16.3
Corporate costs	(25.4)	(22.4)
Defined benefit pension expense	(18.8)	(16.5)
<b>Total</b>	<b>\$ 111.3</b>	<b>\$ 95.7</b>

Table of Contents**Notes to Consolidated Financial Statements (Continued)****15. Operating Segment Information (Continued)**

<b>(In millions)</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>Total Assets</b>		
Grace Catalysts Technologies	\$ 813.2	\$ 804.5
Grace Materials Technologies	494.0	481.1
Grace Construction Products	558.4	545.9
Corporate	2,594.4	2,662.5
<b>Total</b>	<b>\$ 4,460.0</b>	<b>\$ 4,494.0</b>

Corporate costs include corporate support function costs and other corporate costs such as non-asbestos environmental remediation, insurance premiums and professional fees.

Grace Adjusted EBIT for the three months ended March 31, 2012 and 2011 is reconciled below to income before income taxes presented in the accompanying Consolidated Statements of Operations.

**Reconciliation of Operating Segment Data to Financial Statements**

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Grace Adjusted EBIT</b>	<b>\$ 111.3</b>	<b>\$ 95.7</b>
Chapter 11- and asbestos-related costs, net	(5.2)	(5.7)
Restructuring expenses and related asset impairments	(3.0)	(0.2)
Divestment expenses	(0.2)	
Interest expense and related financing costs	(11.3)	(10.4)
Interest income of non-Debtor subsidiaries	0.1	0.3
Net income (loss) attributable to noncontrolling interests	0.4	(0.2)
<b>Income before income taxes</b>	<b>\$ 92.1</b>	<b>\$ 79.5</b>

The table below presents information related to the geographic areas in which Grace operates. Sales are attributed to geographic areas based on customer location.

**Geographic Area Data**

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Net Sales</b>		
United States	\$ 202.3	\$ 206.1
Canada and Puerto Rico	21.3	19.1
<b>Total North America</b>	<b>223.6</b>	<b>225.2</b>
Europe Middle East Africa	293.1	272.2
Asia Pacific	162.4	130.3

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Latin America	75.3	68.0
<b>Total</b>	<b>\$ 754.4</b>	<b>\$ 695.7</b>

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Table of Contents**Notes to Consolidated Financial Statements (Continued)****16. Unconsolidated Affiliate**

Grace accounts for certain of its investments in unconsolidated affiliates using the equity method of accounting. Grace has a 50% ownership interest in ART, and it is the largest such investment accounted for using the equity method.

Grace and ART transact business on a regular basis and maintain several agreements in order to effect such business. These agreements are treated as related party activities with an unconsolidated affiliate. For the quarters ended March 31, 2012 and 2011, Grace sales of catalysts to ART were \$50.5 million and \$59.4 million, respectively. For the quarters ended March 31, 2012 and 2011, charges for fixed costs, research and development and selling, general and administrative services to ART were \$7.4 million and \$6.5 million, respectively. Grace and Chevron provide lines of credit in the amount of \$15.0 million each at a commitment fee of 0.1% of the credit amount. These agreements expire on February 28, 2013. No amounts were outstanding at March 31, 2012.

**17. Noncontrolling Interests in Consolidated Affiliates**

Grace conducts certain business activities in various countries through joint ventures with unaffiliated third parties. In certain cases, the financial results and financial position of these joint ventures are fully included in Grace's consolidated financial statements with the partner's interest reflected in noncontrolling interests in the Consolidated Statements of Operations and Consolidated Balance Sheets. The following tables present summary financial information for Grace's consolidated affiliates for which there is a noncontrolling interest:

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Sales	\$ 23.4	\$ 17.4
Income (loss) before taxes	1.8	(0.7)
Net income (loss)	1.6	(0.9)
Noncontrolling interests in net income (loss)	0.4	(0.2)

<b>(In millions)</b>	<b>March 31, December 31,</b>	
	<b>2012</b>	<b>2011</b>
Cash	\$ 6.7	\$ 6.7
Other current assets	36.4	34.7
Total assets	55.2	53.0
Total liabilities	31.4	30.3
Shareholders' equity	23.8	22.7
Noncontrolling interests in shareholders' equity	8.6	8.1

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**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We generally refer to the quarter ended March 31, 2012 as the "first quarter" and the quarter ended March 31, 2011 as the "prior-year quarter". Our references to "emerging regions" refer to emerging and developing regions as defined by the International Monetary Fund. See Analysis of Operations for a discussion of our non-GAAP performance measures.

**Results of Operations**

*First Quarter Performance Summary*

Following is a summary of our financial performance for the first quarter compared with the prior-year quarter.

Net sales increased 8.4% to \$754.4 million.

Adjusted EBIT increased 16.3% to \$111.3 million.

Grace net income increased 12.4% to \$60.9 million or \$0.80 per diluted share. Adjusted EPS was \$0.88 per diluted share.

Adjusted Free Cash Flow increased to \$32.5 million.

Adjusted EBIT Return On Invested Capital increased to 35.1%.

*Summary Description of Business*

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through our three operating segments.

*Grace Catalysts Technologies*, produces and sells catalysts and related products used in refining, petrochemical and other chemical manufacturing applications including:

Fluid catalytic cracking, or FCC, catalysts, that help to "crack" the hydrocarbon chain in distilled crude oil to produce transportation fuels, such as gasoline and diesel fuels, and other petroleum-based products; and FCC additives used to reduce sulfur in gasoline, maximize propylene production from refinery FCC units, and reduce emissions of sulfur oxides, nitrogen oxides and carbon monoxide from refinery FCC units;

Hydroprocessing catalysts, most of which are marketed through our ART joint venture with Chevron Products Company in which we hold a 50% economic interest, that are used in process reactors to upgrade heavy oils into lighter, more useful products by removing impurities such as nitrogen, sulfur and heavy metals, allowing less expensive feedstocks to be used in the petroleum refining process (ART is not consolidated in our financial statements, so ART's sales are excluded from our sales); and

Polyolefin catalysts and catalyst supports, for the production of polypropylene and polyethylene thermoplastic resins, which can be customized to enhance the performance of a wide range of industrial and consumer end-use applications including high pressure pipe, geomembranes, food packaging, automotive parts, medical devices, and textiles; and chemical catalysts used in a variety of industrial, environmental and consumer applications.

*Grace Materials Technologies*, produces and sells specialty materials, coatings and sealants and related products used in coatings, consumer, industrial, pharmaceutical, and packaging applications including:

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Engineered materials, including silica-based and silica-alumina-based materials, used in:

Coatings and print media applications, consisting of functional additives that provide matting effects and corrosion protection for industrial and consumer coatings, enable

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enhanced media and paper quality in ink jet coatings, and act as a functional filler and retention aid in paper,

Consumer applications, as a free-flow agent, carrier or processing aid in food and personal care products; as a toothpaste abrasive and thickener; and for the processing and stabilization of edible oils and beverages, and

Industrial applications, such as tires and rubber, precision investment casting, refractory, insulating glass windows, biofuels, and drying applications, fulfilling various functions such as reinforcement, high temperature binding and moisture scavenging;

Silica-based separation media and excipients and pharma intermediates combined with complementary purification products including chromatography columns and consumables used in the pharmaceutical, life science and related industries, and CO<sub>2</sub> adsorbents used in anesthesiology and mine safety applications; and

Packaging materials, including can and closure sealants used to seal and enhance the shelf life of can and bottle contents; coatings for cans and closures that prevent metal corrosion, protect package contents from the influence of metal and ensure proper adhesion of sealing compounds; and scavenging technologies designed to reduce off-taste and extend the shelf-life of packaged products.

*Grace Construction Products*, produces and sells specialty construction chemicals and specialty building materials, including:

Concrete admixtures and fibers used to modify the rheology, improve the durability and enhance various other properties of concrete, mortar, masonry and other cementitious construction materials; and additives used in cement processing to improve energy efficiency in manufacturing, enhance the characteristics of finished cement and improve ease of use; and

Building materials used in both new construction and renovation/repair projects. The products protect buildings and civil engineering structures from water, vapor and air penetration. The portfolio includes waterproofing membranes for commercial and residential buildings, specialty grouts for use in waterproofing and soil stabilization applications, air and vapor barriers, and other products to solve the specialized needs of preventative and repair applications.

*Global scope*

We operate our business on a global scale with approximately 71% of our annual 2011 sales and 73% of our first quarter sales outside the United States. We conduct business in over 40 countries and in more than 30 currencies. We manage our operating segments on a global basis, to serve global markets. Currency fluctuations affect our reported results of operations, cash flows, and financial position.

*Analysis of Operations*

We have set forth in the table below our key operating statistics with percentage changes for the first quarter compared with the prior-year quarter. Please refer to this Analysis of Operations when reviewing this Management's Discussion and Analysis of Financial Condition and Results of Operations.

We define Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense, income taxes, net Chapter 11- and asbestos-related costs, restructuring expenses and related asset impairments, divestment expenses, and gains and losses on sales of product lines and other investments.

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We define Adjusted EBITDA (a non-GAAP financial measure) to be Adjusted EBIT adjusted for depreciation and amortization.

We define Adjusted Earnings Per Share (EPS) (a non-GAAP financial measure) to be Diluted EPS adjusted for net Chapter 11- and asbestos-related costs, restructuring expenses and related asset impairments, divestment expenses, gains and losses on sales of product lines and other investments, and certain discrete tax items.

We define Adjusted Free Cash Flow (a non-GAAP financial measure) to be net cash provided by or used for operating activities minus capital expenditures plus the net cash flow from Chapter 11 expenses paid, cash paid to resolve contingencies subject to Chapter 11, accelerated payments under defined benefit pension arrangements, and expenditures for asbestos-related environmental remediation.

We define Adjusted EBIT Return On Invested Capital (a non-GAAP financial measure) to be Adjusted EBIT (on a trailing four quarters basis) divided by the sum of net working capital, properties and equipment and certain other assets and liabilities.

We use Adjusted EBIT as a performance measure in significant business decisions and in determining certain incentive compensation. We use Adjusted EBIT as a performance measure because it provides improved period-to-period comparability for decision making and compensation purposes, and because it better measures the ongoing earnings results of our strategic and operating decisions by excluding the earnings effects of net Chapter 11- and asbestos-related costs, and any restructuring or divestment activities.

We use Adjusted Free Cash Flow as a liquidity measure to evaluate our ability to generate cash to support our ongoing business operations, to invest in our businesses, and to provide a return of cash to shareholders.

Adjusted EBIT, Adjusted EBITDA, Adjusted EPS, Adjusted Free Cash Flow and Adjusted EBIT Return On Invested Capital do not purport to represent income or cash flow measures as defined under U.S. GAAP, and should not be used as alternatives to such measures as an indicator of our performance. These measures are provided to investors and others to improve the period-to-period comparability and peer-to-peer comparability of our financial results, and to ensure that investors understand the information we use to evaluate the performance of our businesses. We have provided in the following tables a reconciliation of these non-GAAP measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.

Adjusted EBIT has material limitations as an operating performance measure because it excludes Chapter 11- and asbestos-related costs and may exclude income and expenses from restructuring and divestment activities, which historically have been material components of our net income. Adjusted EBITDA also has material limitations as an operating performance measure because it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of capital, and depreciation and amortization expense is a necessary element of our costs. Adjusted Free Cash Flow also has material limitations as a liquidity measure because it excludes the net cash flow from Chapter 11 expenses paid, cash paid to resolve contingencies subject to chapter 11, accelerated payments under defined benefit pension arrangements, and expenditures for asbestos-related environmental remediation, which historically have been material components of our operations. We compensate for the limitations of these measurements by using these indicators together with net income as measured under U.S. GAAP to present a complete analysis of our results of operations. Adjusted EBIT and Adjusted EBITDA should be evaluated together with net income, and Adjusted Free Cash Flow should be evaluated with net cash provided by or used for operating activities measured under U.S. GAAP for a complete understanding of our results of operations.

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Analysis of Operations (In millions, except per share amounts)	Three Months Ended March 31,		
	2012	2011	% Change
<b>Net sales:</b>			
Catalysts Technologies	\$ 313.2	\$ 275.7	13.6%
Materials Technologies	212.9	212.4	0.2%
Construction Products	228.3	207.6	10.0%
<b>Total Grace net sales</b>	<b>\$ 754.4</b>	<b>\$ 695.7</b>	<b>8.4%</b>
<b>Net sales by region:</b>			
North America	\$ 223.6	\$ 225.2	(0.7)%
Europe Middle East Africa	293.1	272.2	7.7%
Asia Pacific	162.4	130.3	24.6%
Latin America	75.3	68.0	10.7%
<b>Total net sales by region</b>	<b>\$ 754.4</b>	<b>\$ 695.7</b>	<b>8.4%</b>
<b>Profitability performance measures:</b>			
<b>Adjusted EBIT(A)(B):</b>			
Catalysts Technologies segment operating income	\$ 99.2	\$ 77.9	27.3%
Materials Technologies segment operating income	35.8	40.4	(11.4)%
Construction Products segment operating income	20.5	16.3	25.8%
Corporate support functions (including performance based compensation)	(19.7)	(16.8)	(17.3)%
Other corporate costs (including non-asbestos environmental remediation)	(5.7)	(5.6)	(1.8)%
Defined benefit pension expense(B)	(18.8)	(16.5)	(13.9)%
<b>Adjusted EBIT</b>	<b>111.3</b>	<b>95.7</b>	<b>16.3%</b>
Chapter 11- and asbestos-related costs, net	(5.2)	(5.7)	8.8%
Restructuring expenses and related asset impairments	(3.0)	(0.2)	NM
Divestment expenses	(0.2)		NM
Interest expense and related financing costs	(11.3)	(10.4)	(8.7)%
Interest income of non-Debtor subsidiaries	0.1	0.3	(66.7)%
Provision for income taxes	(30.8)	(25.5)	(20.8)%
<b>Net income attributable to W. R. Grace &amp; Co. shareholders</b>	<b>\$ 60.9</b>	<b>\$ 54.2</b>	<b>12.4%</b>
<b>Diluted EPS (GAAP)</b>	<b>\$ 0.80</b>	<b>\$ 0.72</b>	<b>11.1%</b>
<b>Adjusted EPS (non-GAAP)</b>	<b>\$ 0.88</b>	<b>\$ 0.78</b>	<b>12.8%</b>

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Analysis of Operations (In millions)	Three Months Ended March 31,		
	2012	2011	% Change
<b>Profitability performance measures:</b>			
<b>Gross margin:</b>			
Catalysts Technologies	42.0%	40.1%	1.9pts
Materials Technologies	31.7%	33.8%	(2.1)pts
Construction Products	34.2%	33.7%	0.5pts
Total Grace	36.7%	36.3%	0.4pts
<b>Operating margin:</b>			
Catalysts Technologies	31.7%	28.3%	3.4pts
Materials Technologies	16.8%	19.0%	(2.2)pts
Construction Products	9.0%	7.9%	1.1pts
Total Grace	14.8%	13.8%	1.0pts
<b>Adjusted EBITDA:</b>			
<b>Adjusted EBIT:</b>			
Catalysts Technologies	\$ 99.2	\$ 77.9	27.3%
Materials Technologies	35.8	40.4	(11.4)%
Construction Products	20.5	16.3	25.8%
Corporate	(44.2)	(38.9)	(13.6)%
Total Grace	111.3	95.7	16.3%
<b>Depreciation and amortization:</b>			
Catalysts Technologies	\$ 13.6	\$ 12.6	7.9%
Materials Technologies	7.4	7.9	(6.3)%
Construction Products	7.5	8.3	(9.6)%
Corporate	0.9	0.4	125.0%
Total Grace	29.4	29.2	0.7%
<b>Adjusted EBITDA:</b>			
Catalysts Technologies	\$ 112.8	\$ 90.5	24.6%
Materials Technologies	43.2	48.3	(10.6)%
Construction Products	28.0	24.6	13.8%
Corporate	(43.3)	(38.5)	(12.5)%
Total Grace	140.7	124.9	12.7%
<b>Adjusted EBITDA margin:</b>			
Catalysts Technologies	36.0%	32.8%	3.2pts
Materials Technologies	20.3%	22.7%	(2.4)pts
Construction Products	12.3%	11.8%	0.5pts
Total Grace	18.7%	18.0%	0.7pts
<b>Cash flow measure:</b>			
<b>Net cash used for operating activities</b>	\$ (31.7)	\$ (180.4)	82.4%
Capital expenditures	(25.0)	(23.4)	(6.8)%
Chapter 11 expenses paid	3.2	3.8	(15.8)%
Accelerated defined benefit pension plan contributions	83.4	180.0	(53.7)%
Payments for asbestos-related environmental remediation	2.6	0.3	NM
<b>Adjusted Free Cash Flow</b>	\$ 32.5	\$ (19.7)	NM

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<b>Analysis of Operations</b> <b>(In millions)</b>	<b>Four Quarters</b> <b>Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Calculation of Adjusted EBIT Return On Invested Capital (trailing four quarters):</b>		
Adjusted EBIT	\$ 494.2	\$ 357.8
<b>Invested Capital:</b>		
Trade accounts receivable	471.7	446.3
Inventories	358.5	303.6
Accounts payable	(263.6)	(264.2)
	<b>566.6</b>	<b>485.7</b>
Other current assets (excluding income taxes)	71.8	79.4
Properties and equipment, net	726.8	713.0
Goodwill	150.4	129.2
Investment in unconsolidated affiliate	76.4	59.4
Other assets	99.6	91.0
Other current liabilities (excluding income taxes and restructuring)	(225.2)	(224.1)
Other liabilities (including non-asbestos environmental remediation)	(57.5)	(54.3)
<b>Total invested capital</b>	<b>\$ 1,408.9</b>	<b>\$ 1,279.3</b>
<b>Adjusted EBIT Return On Invested Capital</b>	<b>35.1%</b>	<b>28.0%</b>

Amounts may not add due to rounding.

(A) Grace's segment operating income includes only Grace's share of income of consolidated and unconsolidated joint ventures.

(B) Defined benefit pension expense includes all defined benefit pension expense of Grace. Catalysts Technologies, Materials Technologies, and Construction Products segment operating income and corporate costs do not include amounts for defined benefit pension expense.

NM Not Meaningful

### **Grace Overview**

Following is an overview of our financial performance for the first quarter compared with the prior-year quarter.

#### *Net Sales and Gross Margin*

### **Three Months Ended March 31,** **(\$ in millions)**





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The following tables identify the year-over-year increase or decrease in sales attributable to changes in sales volume and/or mix, product price, and the impact of currency translation.

**Three Months ended March 31, 2012  
as a Percentage Increase (Decrease)  
from Three Months Ended  
March 31, 2011  
Currency**

<b>Net Sales Variance Analysis</b>	<b>Volume</b>	<b>Price</b>	<b>Translation</b>	<b>Total</b>
Catalysts Technologies	(0.9)%	16.0%	(1.5)%	13.6%
Materials Technologies	(1.8)%	3.5%	(1.5)%	0.2%
Construction Products	7.9%	3.3%	(1.2)%	10.0%
Net sales	1.5%	8.4%	(1.5)%	8.4%
<b>By Region:</b>				
North America	(6.9)%	6.2%	%	(0.7)%
Europe Middle East Africa	3.7%	6.8%	(2.8)%	7.7%
Asia Pacific	7.9%	16.5%	0.2%	24.6%
Latin America	7.6%	6.4%	(3.3)%	10.7%

Sales for the first quarter increased 8.4% overall compared with the prior-year quarter. The sales increase was due to improved pricing (8.4%) and higher sales volumes (1.5%), partially offset by unfavorable currency translation (1.5%). Sales in the emerging regions grew 14.1% and represented 33.3% of our total sales compared with 31.6% in the prior-year quarter.

*Adjusted EBIT*

**Three Months Ended March 31,  
(\$ in millions)**

Adjusted EBIT was \$111.3 million in the first quarter, an increase of 16.3% compared with the prior-year quarter. The increase was primarily due to the increase in sales and improvement in gross margin compared with the prior-year quarter. Gross margin was 36.7% in the first quarter compared with 36.3% in the prior-year quarter. The increase was primarily due to improved pricing and better operating leverage, partially offset by unfavorable currency translation and inflation in certain raw materials.

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## Grace Net Income

**Three Months Ended March 31,**  
**(\$ in millions)**

Grace net income was \$60.9 million in the first quarter, an increase of 12.4% compared with \$54.2 million in the prior-year quarter. The increase was primarily due to improved segment operating income, partially offset by a higher provision for income taxes, higher defined benefit pension expenses, and higher restructuring expenses.

*Adjusted EPS*

The following table reconciles our Diluted EPS (GAAP) to our Adjusted EPS (non-GAAP):

<b>(In millions, except per share amounts)</b>	<b>Three Months Ended March 31, 2012</b>			
	<b>Pre-Tax</b>	<b>Tax at Actual Rate</b>	<b>After-Tax</b>	<b>Per Share</b>
<b>Diluted Earnings Per Share (GAAP)</b>				<b>\$ 0.80</b>
Restructuring charges and related asset impairments	\$ 3.0	\$ 1.0	\$ 2.0	0.03
Chapter 11- and asbestos-related costs, net	5.2	1.3	3.9	0.05
Discrete tax items:				
Discrete tax items, including adjustments to uncertain tax positions		(0.2)	0.2	
<b>Adjusted EPS (non-GAAP)</b>				<b>\$ 0.88</b>

<b>(In millions, except per share amounts)</b>	<b>Three Months Ended March 31, 2011</b>			
	<b>Pre-Tax</b>	<b>Tax at Actual Rate</b>	<b>After-Tax</b>	<b>Per Share</b>
<b>Diluted Earnings Per Share (GAAP)</b>				<b>\$ 0.72</b>
Restructuring charges and related asset impairments	\$ 0.2	\$ 0.2	\$ 0.2	
Chapter 11- and asbestos-related costs, net	5.7	1.4	4.3	0.06
Discrete tax items:				
Discrete tax items, including adjustments to uncertain tax positions				
<b>Adjusted EPS (non-GAAP)</b>				<b>\$ 0.78</b>



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*Adjusted Free Cash Flow*

**Three Months Ended March 31,  
(\$ in millions)**

Adjusted Free Cash Flow was \$32.5 million in the first quarter compared with \$(19.7) million in the prior-year quarter. The improved cash flow was primarily due to lower income tax payments, improved working capital performance, and higher earnings. Capital expenditures were \$25.0 million for the first quarter compared with \$23.4 million for the prior-year quarter. Net working capital days were 72 days for the first quarter, compared with 65 days for the prior-year quarter. Our inventory days increased during the first quarter as we prepared for significant scheduled plant maintenance turnarounds in the 2012 second quarter. We expect inventory days to return to target levels over the course of the year.

*Adjusted EBIT Return On Invested Capital*

**Trailing Four Quarters**

Adjusted EBIT Return On Invested Capital for the first quarter was 35.1% on a trailing four quarters basis, up from 28.0% on the same basis in the prior-year quarter. We manage our operations with the objective of maximizing sales, earnings and cash flow over time. Doing so requires that we successfully balance our growth, profitability and working capital and other investments to support sustainable, long-term financial performance. We use Adjusted EBIT Return On Invested Capital as a performance measure in evaluating operating results, in making operating and investment decisions and in balancing the growth and profitability of our operations. Generally, we favor those businesses and investments that provide the highest return on invested capital.

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*Operating Segment Overview Catalysts Technologies*

Following is an overview of the financial performance of Catalysts Technologies for the first quarter compared with the prior-year quarter.

*Net Sales Catalysts Technologies*

**Three Months Ended March 31,  
(\$ in millions)**

Sales of Catalysts Technologies were \$313.2 million in the first quarter, an increase of 13.6% compared with the prior-year quarter. The increase was due to improved pricing (16.0%), partially offset by unfavorable currency translation (1.5%) and lower sales volumes (0.9%). Two-thirds of the price increase was from improved base pricing for our lower rare earth FCC catalysts and one-third related to surcharges implemented to offset the higher cost of raw materials, primarily rare earths. Based on current rare earth prices, we expect the surcharge to have an unfavorable effect on year-over-year sales growth starting in the 2012 second quarter. Weaker sales volumes were due to uneven customer order patterns and slow-downs and closures of refinery operations, particularly on the U.S. east coast and in the Caribbean and Western Europe. Polyethylene catalyst sales volumes increased 6.6% due to strong demand in all regions, and polypropylene catalyst sales volumes increased 14.3% due to increased penetration with key customers.

Sales of ART, which are not consolidated, increased 19.0% due to higher sales volumes, product mix, and favorable customer order patterns. Demand for ART catalysts was strong, driven by continued diesel demand and increased processing of resid feedstock.

*Segment Operating Income (SOI) and Margin Catalysts Technologies*

**Three Months Ended March 31,  
(\$ in millions)**

Gross profit of Catalysts Technologies was \$131.5 million in the first quarter, an increase of 18.8% compared with the prior-year quarter. Segment gross margin was 42.0% compared with 40.1% for the prior-year quarter. The increase was primarily due to improved pricing and productivity, partially offset by higher raw materials costs.

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Segment operating income of Catalysts Technologies was \$99.2 million in the first quarter, an increase of 27.3% compared with the prior-year quarter. The increase was primarily due to improved gross margin and higher ART equity income. Segment operating margin for the first quarter increased to 31.7%, an improvement of 340 basis points compared with the prior-year quarter. Excluding the impact of ART equity income in both periods the segment operating margin increased to 29.9%, an improvement of 290 basis points compared with the prior-year quarter.

*Operating Segment Overview Materials Technologies*

Following is an overview of the financial performance of Materials Technologies for the first quarter compared with the prior-year quarter.

*Net Sales Materials Technologies*

**Three Months Ended March 31,  
(\$ in millions)**

Sales of Materials Technologies were \$212.9 million in the first quarter, an increase of 0.2% compared with the prior-year quarter. The increase was due to improved pricing (3.5%), mostly offset by lower sales volumes (1.8%) and unfavorable currency translation (1.5%). Price increases were implemented mostly to offset the rising cost of raw materials, primarily rubber/latex, pigments, and solvents. Engineered materials volumes were weaker, particularly in matting applications in Asia. The demand for coatings in China slowed late last year and into the first quarter, and we have experienced some destocking of our products by customers as a result. Packaging sales increased 10.9% due to improved pricing and increased sales volumes in closures, can sealants and can coatings. Packaging sales volumes increased in all regions.

*Segment Operating Income (SOI) and Margin Materials Technologies*

**Three Months Ended March 31,  
(\$ in millions)**

Gross profit of Materials Technologies was \$67.5 million in the first quarter, a decrease of 6.0% compared with the prior-year quarter. Segment gross margin was 31.7% compared with 33.8% for the prior-year quarter. The decrease was primarily due to a decline in operating leverage from lower sales volumes in engineered materials, higher manufacturing costs, and higher raw materials costs.





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Segment operating income of Materials Technologies was \$35.8 million in the first quarter, a decrease of 11.4% compared with the prior-year quarter. The decrease was primarily due to declining gross margin. Segment operating margin for the first quarter decreased to 16.8%, a decline of 220 basis points compared with the prior-year quarter.

***Operating Segment Overview Construction Products***

Following is an overview of the financial performance of Construction Products for the first quarter compared with the prior-year quarter.

*Net Sales Construction Products*

**Three Months Ended March 31,  
(\$ in millions)**

Sales of Construction Products were \$228.3 million in the first quarter, an increase of 10.0% compared with the prior-year quarter. The increase was due to higher sales volumes (7.9%) and improved pricing (3.3%), partially offset by unfavorable currency translation (1.2%). Sales in the emerging regions, which represented 32.5% of sales in the first quarter, increased 23.5% due to the strong sales performance of our concrete chemicals in Latin America, the Middle East and emerging regions in Asia. Sales in North America, which represented 40.7% of sales in the first quarter, increased 6.1%. Western Europe, which represented 16.3% of sales in the first quarter, declined 2.1% compared with the prior-year quarter. Our 2011 third quarter acquisition of De Neef Conchem Group contributed \$8.4 million to sales, which more than offset a \$4.9 million decline in sales due to the 2011 fourth quarter divestiture of the vermiculite business.

*Segment Operating Income (SOI) and Margin Construction Products*

**Three Months Ended March 31,  
(\$ in millions)**

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Gross profit of Construction Products was \$78.0 million in the first quarter, an increase of 11.4% compared with the prior-year quarter. Segment gross margin was 34.2% compared with 33.7% for the prior-year quarter. The increase was primarily due to better operating leverage from higher volumes, improved pricing, and favorable product mix, partially offset by higher raw materials costs.

Segment operating income of Construction Products was \$20.5 million in the first quarter, an increase of 25.8% compared with the prior-year quarter. The increase was primarily due to higher sales, improved gross margin and better operating leverage. Segment operating margin for the first quarter increased to 9.0%, an improvement of 110 basis points compared with the prior-year quarter.

*Corporate Overview*

**Three Months Ended March 31,  
(\$ in millions)**

Corporate costs include corporate support function costs (such as finance, legal services, human resources, communications, regulatory affairs, information technology and incentive compensation related to corporate functions), and other corporate costs such as non-asbestos environmental remediation, insurance premiums and professional fees. Corporate costs for the first quarter increased 13.4% compared with the prior-year quarter primarily due to higher benefits expenses and investments in productivity initiatives, including information technology.

*Defined Benefit Pension Expense*

Defined benefit pension expense includes costs under U.S. and non-U.S. defined benefit pension plans that provide benefits to employees of Catalysts Technologies, Materials Technologies, Construction Products, and corporate as well as retirees and former employees of divested businesses where we retained these obligations.

Defined benefit pension expense was \$18.8 million in the first quarter compared with \$16.5 million in the prior-year quarter. The 13.9% increase was primarily due to a lower expected long-term rate of return on assets and a decrease in the discount rate we use to determine our pension benefit obligation.

Table of Contents**Chapter 11- and Asbestos-Related Costs**

The following table presents Chapter 11- and asbestos-related costs:

(In millions)	Three Months Ended March 31,	
	2012	2011
<b>Chapter 11- and asbestos-related costs, net:</b>		
Chapter 11 expenses, net of interest income	\$ 4.5	\$ 5.8
Asbestos administration costs	1.2	1.1
Provision for environmental remediation related to asbestos, net		0.2
D&O insurance costs related to Chapter 11	0.1	0.4
<b>Chapter 11 financing related(A):</b>		
Translation effects intercompany loans	(9.6)	(19.7)
Value of currency forward contracts intercompany loans	8.1	16.5
Certain other currency translation costs, net	0.9	1.4
<b>Chapter 11- and asbestos-related costs, net</b>	<b>\$ 5.2</b>	<b>\$ 5.7</b>

(A)

Due to the bankruptcy, Grace has had significant intercompany loans between its non-U.S. subsidiaries and its U.S. debtor subsidiaries that are not related to its operating activities. In addition, Grace has accumulated significant cash during its bankruptcy. We expect that the intercompany loans will be paid when Grace emerges from bankruptcy, and we expect to use the excess cash balances to fund a significant portion of Grace's emergence from bankruptcy. Accordingly, income and expense items related to the intercompany loans and the cash balances are categorized as Chapter 11- and asbestos-related costs, net.

The decrease in Chapter 11- and asbestos-related costs, net, in the first quarter compared with the prior-year quarter was primarily due to the decrease in legal expenses related to the Chapter 11 proceeding.

We present the net costs of our reorganization under Chapter 11 as "Chapter 11 expenses, net of interest income," a separate caption in our Consolidated Statements of Operations.

**Interest Expense**

Interest expense was \$11.3 million in the first quarter, an increase of 8.7% compared with the prior-year quarter. The increase was due to the compounding of interest on certain liabilities subject to compromise over the course of the Chapter 11 proceeding.

The average effective interest rate on pre-petition obligations was 3.5% for both the first quarter and prior-year quarter. Such interest will not be paid until the Joint Plan (see "Funding Emergence from Chapter 11" below) or another plan of reorganization becomes effective.

**Income Taxes**

The income tax provision at the U.S. Federal corporate rate of 35% for the first quarter and the prior-year quarter would have been \$32.2 million and \$27.8 million, respectively. The primary differences in each period between these amounts and the recorded provision for income taxes of \$30.8 million and \$25.5 million, respectively, are adjustments primarily related to changes in tax contingencies, certain nondeductible expenses including Chapter 11 expenses, tax rate differences in foreign jurisdictions and other discrete adjustments. During the first quarter, we recorded discrete charges of approximately \$0.2 million to the provision for income taxes.

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We have not paid U.S. Federal income taxes in cash in recent years since available tax deductions and credits have fully offset U.S. taxable income. We generally pay income taxes in foreign jurisdictions in cash. We expect to generate significant U.S. Federal net operating losses upon emergence from bankruptcy. Income taxes paid in cash, excluding tax settlements, were \$8.0 million for the first quarter, or approximately 8.7% of income before income taxes.

See Note 7 to the Consolidated Financial Statements for additional information regarding income taxes.

***Financial Condition, Liquidity, and Capital Resources***

Following is an analysis of our financial condition, liquidity and capital resources at March 31, 2012. For additional information regarding our Chapter 11 cases, see Note 2 to the Consolidated Financial Statements. For additional information regarding our asbestos-related litigation, see Note 3 to the Consolidated Financial Statements. For additional information regarding environmental matters, see Note 10 to the Consolidated Financial Statements.

***Funding Emergence from Chapter 11***

We filed a joint plan of reorganization with the bankruptcy court on September 19, 2008. We refer herein to this joint plan of reorganization, as subsequently amended and modified, as the Joint Plan. The Joint Plan and some of the objections thereto are described in Note 2 to the Consolidated Financial Statements. The Joint Plan includes material conditions to its confirmation and effectiveness. One of these conditions is that we obtain exit financing in an amount and on terms satisfactory to us. If we had emerged from bankruptcy on December 31, 2011, we would have required less than \$600 million of new financing to consummate the Joint Plan. In addition, we intend to seek a \$200 million revolving credit facility in connection with our exit financing. The actual amount of new financing that we will need to fund the Joint Plan will generally depend on the timing of our emergence and the amount of our available cash resources, including net cash from our operating and investing activities, and the final resolution costs for our outstanding claims and contingent liabilities.

***Cash Resources and Available Credit Facilities***

At March 31, 2012, we had available liquidity of \$1,036.3 million, consisting of \$1,008.2 million in cash and cash equivalents (approximately \$700.2 million in the U.S.), and approximately \$28.1 million of available liquidity under various non-U.S. credit facilities.

We maintain a \$100 million cash-collateralized letter of credit facility to support existing and new financial assurances and cash collateral accounts that secure the obligations arising from letters of credit and foreign currency and commodity transactions and derivatives. At March 31, 2012, we held \$89.8 million in restricted cash and cash equivalents to support this facility. At emergence, we expect to replace the cash-collateralized letter of credit facility with a revolving credit facility and to use the restricted cash to reduce our exit financing requirements.

Our non-U.S. credit facilities are extended to various subsidiaries that use them to issue bank guarantees supporting trade activity and to provide working capital during occasional cash shortfalls. Our largest non-U.S. credit facility is in Germany and is secured by third-party accounts receivable, with availability determined on the basis of eligible outstanding receivables. Most of our other credit facilities are unsecured and are offered subject to annual review and renewal.

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The following table summarizes our non-U.S. credit facilities as of March 31, 2012:

<b>Credit Facilities (In millions)</b>	<b>Maximum Borrowing Amount</b>	<b>Available Liquidity</b>	<b>Expiration Date</b>
<b>Country</b>			
Germany	\$ 66.7	\$ 21.1	12/31/13
Other Countries	7.0	7.0	Various through 2013
<b>Total</b>	<b>\$ 73.7</b>	<b>\$ 28.1</b>	

We believe that these funds and credit facilities are sufficient to finance our operations and support our business strategy. We intend to renew our non-U.S. facilities as they expire.

*Analysis of Cash Flows*

The following table summarizes our cash flows for the first quarter and prior-year quarter:

<b>(In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net cash used for operating activities	\$ (31.7)	\$ (180.4)
Net cash used for investing activities	(28.0)	(24.1)
Net cash provided by financing activities	14.6	0.3
Effect of currency exchange rate changes on cash and cash equivalents	5.0	7.9
Decrease in cash and cash equivalents	(40.1)	(196.3)
Cash and cash equivalents, beginning of period	1,048.3	1,015.7
Cash and cash equivalents, end of period	\$ 1,008.2	\$ 819.4

Net cash used for operating activities in the first quarter was \$31.7 million compared with \$180.4 million in the prior-year quarter. The change in cash used for operating activities primarily relates to lower pension contributions, lower income tax payments, improved working capital performance, and higher earnings.

Net cash provided by financing activities in the first quarter was \$14.6 million, compared with \$0.3 million in the prior-year quarter. The change in cash provided by financing activities is primarily due to the increase in proceeds from the exercise of stock options.

*Debt and Other Contractual Obligations*

Total debt outstanding at March 31, 2012 was \$1,011.6 million, including \$423.2 million of accrued interest on pre-petition debt. As a result of the Chapter 11 filing, we are now in default on \$526.3 million of pre-petition debt, which, together with accrued interest thereon, has been included in "liabilities subject to compromise" as of March 31, 2012. The automatic stay provided under the U.S. Bankruptcy Code prevents our lenders from taking any action to collect the principal amounts as well as related accrued interest. However, we will continue to accrue and report interest in accordance with the Joint Plan on such debt during the Chapter 11 proceedings unless further developments lead us to conclude that it is probable that such interest will be compromised.

See Note 10 to the Consolidated Financial Statements for a discussion of Financial Assurances.

Table of Contents**Employee Benefit Plans**

See Note 8 to the Consolidated Financial Statements for further discussion of Pension Plans and Other Postretirement Benefit Plans.

**Defined Contribution Retirement Plan**

We sponsor a defined contribution retirement plan for our employees in the United States. This plan is qualified under section 401(k) of the U.S. tax code. Currently, we contribute an amount equal to 100% of employee contributions, up to 6% of an individual employee's salary or wages. Our costs related to this benefit plan were \$3.4 million for the first quarter compared with \$3.1 million for the prior-year quarter.

**Defined Benefit Pension Plan**

We sponsor defined benefit pension plans for our employees in the U.S., Canada, the U.K., Germany and a number of other countries, and fund government-sponsored programs in other countries where we operate. Certain of our defined benefit pension plans are advance-funded and others are pay-as-you-go. The advance-funded plans are administered by trustees who direct the management of plan assets and arrange to have obligations paid when due. Our most significant advance-funded plans cover current and former salaried employees in the U.S. and U.K. and employees covered by collective bargaining agreements at certain of our U.S. facilities. Our U.S. advance-funded plans are qualified under the U.S. tax code.

The following table presents the funded status of our fully-funded, underfunded, and unfunded pension plans:

<b>Funded Status of Pension Plans (In millions)</b>	<b>Fully-Funded Pension Plans(1)</b>		<b>Underfunded Pension Plans(1)</b>		<b>Unfunded Pension Plans(2)</b>	
	<b>March 31</b>	<b>December 31</b>	<b>March 31</b>	<b>December 31</b>	<b>March 31</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Projected benefit obligation	\$ 228.0	\$ 224.0	\$ 1,224.0	\$ 1,217.3	\$ 340.6	\$ 315.9
Fair value of plan assets	261.3	261.1	1,133.7	989.3		
<b>Funded status (PBO basis)</b>	<b>\$ 33.3</b>	<b>\$ 37.1</b>	<b>\$ (90.3)</b>	<b>\$ (228.0)</b>	<b>\$ (340.6)</b>	<b>\$ (315.9)</b>

(1) Plans intended to be advance-funded.

(2) Plans intended to be pay-as-you-go.

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 \$33.3 million as of March 31, 2012, 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 \$90.3 million as of March 31, 2012. Additionally, we have several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO of \$340.6 million at March 31, 2012 is unfunded. The combined balance of the underfunded and unfunded plans was \$430.9 million as of March 31, 2012 and is presented as a liability on the Consolidated Balance Sheets as follows: \$13.7 million in "other current liabilities"; \$293.5 million included in "underfunded and unfunded defined benefit pension plans"; and \$123.7 million in "liabilities subject to compromise."

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On a quarterly basis, we analyze pension assets and pension liabilities along with the resulting funded status and update our 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.

Assets available to fund the PBO of the U.S. advance-funded plans at March 31, 2012 were approximately \$1,098 million, up \$143 million from December 31, 2011, as a result of cash contributions and returns on plan assets.

The following table presents the components of cash contributions for the advance-funded and pay-as-you-go plans:

<b>Cash Contributions to Defined Benefit Pension Plans (In millions)</b>	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
U.S. advance-funded plans	\$ 109.3	\$ 203.1
U.S. pay-as-you-go plans	1.4	1.4
Non-U.S. advance-funded plans	0.9	1.0
Non-U.S. pay-as-you-go plans	2.1	1.8
<b>Total Cash Contributions</b>	<b>\$ 113.7</b>	<b>\$ 207.3</b>

We made contributions to our U.S. advance-funded plans of approximately \$109 million in the first quarter, which includes minimum required payments of \$26 million and an accelerated contribution of \$83 million.

Contributions to non-U.S. pension plans are not subject to bankruptcy court approval and we intend to fund such plans based upon applicable legal requirements and actuarial and trustee recommendations. We contributed \$3.0 million to these plans in the first quarter compared with \$2.8 million in the prior-year quarter.

*Postretirement Benefits Other Than Pension*

We provide certain health care and life insurance benefits for retired employees in the U.S., a large majority of whom are retirees of divested businesses. These plans are unfunded, and we pay the costs of benefits under these plans as they are incurred. Our share of the net cost of benefits under this program was \$1.6 million for the first quarter compared with \$1.2 million for the prior-year quarter. We received Medicare subsidy payments of \$0.3 million in the first quarter compared with \$1.8 million in the prior-year quarter. Our recorded liability for postretirement benefits of \$64.1 million at March 31, 2012 is stated at net present value discounted at 4.00%. Under our proposed Joint Plan, these benefits would continue.

*Other Contingencies*

See Note 10 to the Consolidated Financial Statements for a discussion of our other contingent matters.

*Inflation*

We recognize that inflationary pressures may have an adverse effect on the company through higher asset replacement costs and higher raw materials and other operating costs. We try to minimize these impacts through effective control of operating expenses and productivity improvements as well as price increases to customers.

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***Critical Accounting Estimates***

See the "Critical Accounting Estimates" heading in Item 7 of our Form 10-K for the year ended December 31, 2011 for a discussion of our critical accounting estimates.

***Goodwill***

Our GCP Europe reporting unit continues to operate in a challenging environment. We currently believe that the fair value of this reporting unit exceeds its carrying value. We may be required to record a non-cash impairment charge in the future if market conditions or business performance deteriorate further.

***Recent Accounting Pronouncements***

See Note 1 of Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect on us.

***Forward Looking Statements***

This document contains, and our other public communications may contain, forward-looking statements, that is, information related to future, not past, events. Such statements generally include the words "believes," "plans," "intends," "targets," "will," "expects," "suggests," "anticipates," "outlook," "continues" or similar expressions. Forward-looking statements include, without limitation, all statements regarding our Chapter 11 case; expected financial positions; results of operations; cash flows; financing plans; business strategy; budgets; capital and other expenditures; competitive positions; growth opportunities for existing products; benefits from new technology and cost reduction initiatives, plans and objectives; and markets for securities. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Like other businesses, we are subject to risks and uncertainties that could cause our actual results to differ materially from our projections or that could cause other forward-looking statements to prove incorrect. Factors that could cause actual results to materially differ from those contained in the forward-looking statements include, without limitation: developments affecting our bankruptcy, proposed plan of reorganization and settlements with certain creditors, the cost and availability of raw materials (including rare earths) and energy, developments affecting our unfunded pension obligations, risks related to foreign operations, especially in the emerging regions, acquisitions and divestitures of assets and gains and losses from dispositions or impairments, the effectiveness of our research and development and growth investments, our legal and environmental proceedings, costs of compliance with environmental regulation and those factors set forth in our most recent Annual Report on Form 10-K, this quarterly report on Form 10-Q and current reports on Form 8-K, which have been filed with the Securities and Exchange Commission and are readily available on the Internet at [www.sec.gov](http://www.sec.gov). Our reported results should not be considered as an indication of our future performance. Readers are cautioned not to place undue reliance on our projections and forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly release any revision to the projections and forward-looking statements contained in this document, or to update them to reflect events or circumstances occurring after the date of this document.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

With respect to information disclosed in the "Quantitative and Qualitative Disclosures About Market Risk" section of our Annual Report on Form 10-K for the year ended December 31, 2011, more recent numerical measures and other information are available in the "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations"



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sections of this Report. These more recent measures and information are incorporated herein by reference.

**Item 4. CONTROLS AND PROCEDURES**

*EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES*

As of March 31, 2012, Grace carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, Grace's Chief Executive Officer and Chief Financial Officer concluded that Grace's disclosure controls and procedures are effective to ensure that information required to be disclosed in Grace's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that material information relating to Grace is made known to management, including Grace's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING*

There were no changes in Grace's internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, Grace's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

Notes 2, 3 and 10 to the interim consolidated financial statements in Part 1 of this Report are incorporated herein by reference.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this Report, you should carefully consider the risk factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in this Report and in our Annual Report on Form 10-K are not the only risks facing Grace. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. With respect to certain risk factors discussed in our Annual Report on Form 10-K, more recent numerical measures and other information are available in the "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this Report. These more recent measures and information are incorporated herein by reference.

**Item 6. EXHIBITS**

In reviewing the agreements included as exhibits to this and other Reports filed by Grace with the Securities and Exchange Commission, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Grace or other parties to the agreements. The agreements generally contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement. These representations and warranties:

Are not statements of fact, but rather are used to allocate risk to one of the parties if the statements prove to be inaccurate;

May have been qualified by disclosures that were made to the other parties in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

May apply standards of materiality in a way that is different from what may be viewed as material to you or other investors;  
and

Were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and do not reflect more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Grace may be found elsewhere in this report and Grace's other public filings, which are available without charge through the Securities and Exchange Commission's website at <http://www.sec.gov>.

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

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
15	Accountants' Awareness Letter
31.(i).1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.(i).2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

\*

These interactive data files shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.



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