SCHWEITZER MAUDUIT INTERNATIONAL INC
Form 8-K
May 26, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

May 24, 2006

Date of Report (Date of earliest event reported)

SCHWEITZER-MAUDUIT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**1-13948**	**62-1612879**
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. Employer Identification No.)

100 North Point Center East, Suite 600 **Atlanta, Georgia**	**30022**
(Address of principal executive offices)	(Zip code)

1-800-514-0186
(Registrant s telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act. (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act. (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act. (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act. (17 CFR 240.13c-4©)

Item 1.01 **Entry into a Material Definitive Agreement.**

On May 24, 2006, Schweitzer-Mauduit do Brasil, S.A. (SWM-B), an indirect Brazilian subsidiary of the Company, entered into the first of a series of agreements for purchased electricity supply and distribution to the mill. The series of agreements include agreements for electrical energy supply and the transmission and distribution of electricity to the mill. These agreements relate back to energy supplied to the mill beginning May 1, 2006.

The contract for the electrical energy supply is for the period May 1, 2006 to December 31, 2010 to cover 100% of the mill s consumption of electrical energy. This contract has been fully negotiated and authorized, and is being circulated for signature. The contract is with CESP, which is the third largest electrical energy producer in Brazil and the largest in the State of Sao Paulo, which is adjacent to the State of Rio de Janeiro. The absolute value of the electric energy to be provided under this contract is estimated at approximately $4.5 to $5.0 million annually (based on current foreign currency exchange rates) during the contractual period. The contract provides for a fixed price in each of the calendar year periods of the contract. The contract includes a take or pay obligation with the target energy consumption amount based on estimated average consumption by the mill. To the extent that actual consumption for an annual period exceeds the target consumption level by more than 5%, the excess over 105% of target will be priced at market rates. To the extent that consumption for an annual period is less than 90% of target, SWM-B will be required to pay for a consumption amount up to 90% of target and can re-sell the amount in excess of its actual needs at market rates. Annually, the target consumption amount can be revised up or down by as much as 10%.

The agreements for transmission and distribution, signed by SWM-B on May 24, 2006, remain with the previous electrical energy supplier under regulated tariffs. Each of these 2 agreements is a revolving annual contract with Light EDF, which is the largest distributor of electrical energy in the State of Rio de Janeiro, Brazil, the state in which SWM-B is located. The absolute value of the services to be provided under these two contracts combined is estimated at approximately $3 million annually (based on current foreign currency exchange rates).

Item 2.05 **Costs Associated with Exit or Disposal Activities.**

On May 26, 2006, Schweitzer-Mauduit announced a decision to cease the production and sale of décor papers made at its Eagle Mill in Lee, Massachusetts. The Company is working with its customers to continue to provide product until those customers can secure alternative décor paper supply. From its initial customer contacts, the Company expects to cease production by approximately September 1, 2006.

In 2001, the Company decided to enter the décor papers market as part of a strategy to diversify into non-tobacco papers. Décor papers are sold to customers who saturate and laminate the paper to particleboard for use in furniture, cabinet and flooring applications. Although the Company has been successful in qualifying its products with its customers, the Company has not been able to achieve an acceptable manufacturing cost structure or develop and manufacture décor papers that generate acceptable profitability.

With this decision, the Company will cease operation of a paper machine at the Eagle Mill in Lee, which will result in accelerated depreciation and other expenses totaling approximately $5 million, including cash costs of approximately $1 million that are partly related to employee severance expenses. This cessation will result in the loss of approximately 25 jobs in total at the Lee Mills and at the Company s U.S. headquarters in Alpharetta, Georgia. Of the $5 million of total expenses, approximately $2 million is expected to impact second quarter 2006 operating results and approximately $3 million is expected to impact third quarter 2006 operating results. The Company s ongoing operating results are expected to improve by approximately $1 to $2 million annually as a result of the exit of the décor papers business and associated restructuring activities.

Item 2.06 **Material Impairments.**

In connection with the decision to exit the décor papers business and associated restructuring activities discussed in Item 2.05 above, the Company is accelerating depreciation of a paper machine and related equipment at the Eagle Mill in Lee. See Item 2.05 above for further information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Schweitzer-Mauduit International, Inc.

By: /s/ PAUL C. ROBERTS
Paul C. Roberts
Chief Financial Officer and Treasurer

Dated: May 26, 2006

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

claims that had been expunged by a bankruptcy court order that was reversed by an order of the District Court on September 29, 2009. As of December 31, 2009, of the approximately 3,290 non-asbestos claims filed, approximately 1,910 have been expunged or withdrawn by claimants, approximately 1,175 have been resolved, and an additional approximately 210 claims are to be addressed through the claim objection process and the dispute resolution procedures approved by the Bankruptcy Court.

Additionally, by order dated June 17, 2008, the Bankruptcy Court established October 31, 2008 as the bar date for ZAI PD Claims related to property located in the U.S. As of December 31, 2009, approximately 19,260 US ZAI PD Claims have been filed. In addition, on October 21, 2008, the Bankruptcy Court entered an order establishing August 31, 2009 as the bar date for ZAI PD Claims related to property located in Canada. Under the Amended Settlement, notwithstanding the Canadian ZAI PD Claims Bar Date of August 31, 2009, all Canadian ZAI PD Claimants who have filed a proof of claim by December 31, 2009, shall be entitled to seek compensation from the Canadian ZAI PD Claims Fund to be established pursuant to the Amended Settlement. As of December 31, 2009, approximately 14,100 Canadian ZAI PD Claims have been filed. The Joint Plan provides for the channeling of US ZAI PD Claims and Canadian ZAI PD Claims to the Asbestos PD Trust created under the Joint Plan, and the subsequent transfer of Canadian ZAI PD Claims to a Canadian fund. No bar date has been set for personal injury claims related to ZAI. The Joint Plan provides that ZAI PI Claims would be channeled to the Asbestos PI Trust created under the Joint Plan.

Grace is continuing to analyze and review unresolved claims in relation to the Joint Plan. Grace believes that its recorded liabilities for claims subject to the March 31, 2003 bar date represent a reasonable estimate of the ultimate allowable amount for claims that are not in dispute or have been submitted with sufficient information to both evaluate the merit and estimate the value of the claim. The PD Claims are considered as part of Grace's overall asbestos liability and are being accounted for in accordance with the conditions precedent under the Prior Plan, as described in Note 3.

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

The Debtors have entered into a debtor-in-possession post-petition loan and security agreement, or DIP facility, with a syndicate of lenders that provides for up to $165 million of revolving loans and face amount of letters of credit. The DIP facility is secured by a priority lien on substantially all assets of the Debtors with the exclusion of the capital stock of non-U.S. subsidiaries, and bears interest based on LIBOR. On February 16, 2010, the Bankruptcy Court granted Grace authority to terminate the DIP facility and replace it with a $100 million cash-collateralized letter of credit facility with a commercial bank to support current outstanding and new letters of credit.

Accounting Impact The accompanying Consolidated Financial Statements have been prepared in accordance with FASB Accounting Standards Codification 852 ("ASC 852"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code". ASC 852 requires that financial statements of debtors-in-possession be prepared on a going concern basis, which contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Filing, the realization of certain of the Debtors' assets and the liquidation of certain of the Debtors' liabilities are subject to significant uncertainty. While operating as debtors-in-possession, the Debtors may sell or otherwise dispose of

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

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 December 31, 2009, such pre-petition liabilities include fixed obligations (such as debt and contractual commitments), as well as estimates of costs related to contingent liabilities (such as asbestos-related litigation, environmental remediation and other claims). Obligations of Grace subsidiaries not covered by the Filing continue to be classified on the Consolidated Balance Sheets based upon maturity dates or the expected dates of payment. ASC 852 also requires separate reporting of certain expenses, realized gains and losses, and provisions for losses related to the Filing as reorganization items. Grace presents reorganization items as "Chapter 11 expenses, net of interest income," a separate caption in its Consolidated Statements of Operations.

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

Grace has not recorded the benefit of any assets that may be available to fund asbestos-related and other liabilities under the Fresenius Settlement and the Sealed Air Settlement, as under the Joint Plan, these assets will be transferred to the PI Trust and the PD Trust. The estimated fair value available under the Fresenius Settlement and the Sealed Air Settlement as measured at December 31, 2009, was $1,255.3 million comprised of $115.0 million in cash from Fresenius and $1,140.3 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.

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Components of liabilities subject to compromise are as follows:

	December 31, 2009	December 31, 2008	Filing Date (Unaudited)
		(In millions)	
Pre-petition bank debt plus accrued interest	**$ 850.6**	$ 823.5	$ 511.5
Drawn letters of credit plus accrued interest	**31.4**	30.0	
Asbestos-related contingencies	**1,700.0**	1,700.0	1,002.8
Income tax contingencies	**117.9**	121.0	242.1
Environmental contingencies	**148.4**	152.2	164.8
Postretirement benefits other than pension	**69.3**	73.2	185.4
Unfunded special pension arrangements	**111.0**	106.0	70.8
Retained obligations of divested businesses	**29.1**	29.8	43.5
Accounts payable	**31.2**	31.2	43.0
Other accrued liabilities	**67.3**	55.5	102.1
Reclassification to current liabilities[1]	**(9.1)**	(9.5)	
Total Liabilities Subject to Compromise	**$ 3,147.1**	$ 3,112.9	$ 2,366.0

(1) As of December 31, 2009 and 2008, approximately $9.1 million and $9.5 million, respectively, of certain pension and postretirement benefit obligations subject to compromise have been presented in other current liabilities in the Consolidated Balance Sheets in accordance with ASC 715.

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

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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 December 31, 2009.

	Cumulative Since Filing (In millions) (Unaudited)
Balance, Filing Date April 2, 2001	$ 2,366.0
Cash disbursements and/or reclassifications under Bankruptcy Court orders:	
Payment of environmental settlement liability (see Note 13)	(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 including employee wages and benefits, sales and use tax, and customer programs	(333.2)
Expense/(income) items:	
Interest on pre-petition liabilities	433.0
Employee-related accruals	79.2
Provision for asbestos-related contingencies	744.8
Provision for environmental contingencies	331.1
Provision for income tax contingencies	(42.2)
Balance sheet reclassifications	(34.8)
Balance, end of period	**$ 3,147.1**

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 rates for the twelve months ended December 31, 2009 and 2008 were 3.25% and 5.09%, respectively. From the Filing Date through December 31, 2005, Grace accrued interest on pre-petition bank debt at a negotiated fixed annual rate of 6.09%, compounded quarterly. The general unsecured creditors that hold pre-petition bank credit facilities have asserted that they are entitled to post-petition interest at the default rate specified under the terms of the underlying credit agreements which, if paid, would be approximately $100 million. Grace has asserted that such creditors are not entitled to interest at the default rate and has requested the Bankruptcy Court to determine the appropriate rate at which interest would be payable.

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.

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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

	2009	2008	2007
	(In millions)		
Legal and financial advisory fees	**$ 49.1**	$ 63.6	$ 95.1
Interest (income) expense	**(1.1)**	2.2	(8.7)
Chapter 11 expenses, net of interest income	**$ 48.0**	$ 65.8	$ 86.4

Pursuant to ASC 852, interest income earned on the Debtors' cash balances must be offset against Chapter 11 expenses. During 2008, interest income was reduced by a $6.0 million charge related to the change in fair value of investment securities held by the Debtors.

Condensed financial information of the Debtors

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

	Year Ended December 31,		
	2009	2008	2007
	(In millions) (Unaudited)		
Net sales, including intercompany	**$ 1,383.1**	$ 1,559.6	$ 1,497.9
Cost of goods sold, including intercompany, exclusive of depreciation and amortization shown separately below	**958.6**	1,154.2	1,066.8
Selling, general and administrative expenses	**293.5**	295.2	314.0
Restructuring expenses	**12.0**	2.9	
(Gains) loss on sales of product lines and gain related to the sale of interest in an unconsolidated affiliate	**(27.0)**		1.0
Research and development expenses	**36.1**	43.3	43.9
Depreciation and amortization	**55.9**	57.1	55.5
Defined benefit pension expense	**69.4**	37.4	38.8
Interest expense and related financing costs	**37.3**	53.3	71.1
Provision for environmental remediation	**4.4**	14.6	17.0
Chapter 11 expenses, net of interest income	**48.0**	65.8	86.6
Other (income) expense, net	**(72.2)**	(118.5)	(82.4)
	1,416.0	1,605.3	1,612.3
Loss before income taxes and equity in net income of non-filing entities	**(32.9)**	(45.7)	(114.4)
Benefit from (provision for) income taxes	**17.1**	11.4	57.2
Loss before equity in net income of non-filing entities	**(15.8)**	(34.3)	(57.2)
Equity in net income of non-filing entities	**87.0**	155.8	146.0
Net income attributable to W. R. Grace & Co. shareholders	**$ 71.2**	$ 121.5	$ 88.8

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Debtor-in-Possession Statements of Cash Flows

	Year Ended December 31,		
	2009	2008	2007
	(In millions) (Unaudited)		
Operating Activities			
Net income attributable to W. R. Grace & Co. shareholders	**$ 71.2**	$ 121.5	$ 88.8
Reconciliation to net cash provided by (used for) operating activities:			
Chapter 11 expenses, net of interest income	**48.0**	65.8	86.6
(Benefit from) provision for income taxes	**(17.1)**	(11.4)	(57.2)
Equity in net income of non-filing entities	**(87.0)**	(155.8)	(146.0)
Depreciation and amortization	**55.9**	57.1	55.5
Interest on pre-petition liabilities subject to compromise	**36.2**	49.4	70.9
Provision for environmental remediation	**4.4**	14.6	17.0
Other non-cash items, net	**(36.6)**	(17.1)	(7.3)
Contributions to defined benefit pension plans	**(43.1)**	(54.2)	(81.1)
Cash paid to resolve contingencies subject to Chapter 11		(252.0)	(10.3)
Chapter 11 expenses paid	**(54.2)**	(69.3)	(92.1)
Restructuring expenses	**12.0**	2.9	
Payments related to restructuring expenses	**(7.4)**	(1.8)	
Repatriation of cash from foreign entities	**170.6**		
Income taxes paid, net of refunds	**35.6**	17.3	(5.4)
Changes in other assets and liabilities, excluding the effect of businesses acquired/divested	**132.8**	122.8	1.7
Net cash provided by (used for) operating activities	**321.3**	(110.2)	(78.9)
Investing Activities			
Capital expenditures	**(51.6)**	(74.3)	(86.3)
Other	**198.2**	188.5	100.8
Net cash provided by investing activities	**146.6**	114.2	14.5
Net cash provided by (used for) financing activities	**(0.5)**	7.3	37.4
Net increase (decrease) in cash and cash equivalents	**467.4**	11.3	(27.0)
Cash and cash equivalents, beginning of period	**218.1**	206.8	233.8
Cash and cash equivalents, end of period	**$ 685.5**	$ 218.1	$ 206.8

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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

	December 31, 2009	2008
	(In millions) (Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 685.5**	$ 218.1
Investment securities		21.6
Cash value of life insurance policies, net of policy loans		67.2
Trade accounts receivable, net (including $16.9 from an unconsolidated affiliate) (2008-$0.0)	**91.5**	115.0
Receivables from non-filing entities, net	**64.5**	69.9
Inventories	**86.5**	122.1
Other current assets	**50.6**	57.4
Total Current Assets	**978.6**	671.3
Properties and equipment, net	**399.6**	417.1
Deferred income taxes	**808.5**	834.4
Asbestos-related insurance	**500.0**	500.0
Loans receivable from non-filing entities, net	**388.9**	399.1
Investment in non-filing entities	**254.0**	492.0
Overfunded defined benefit pension plans	**0.2**	0.2
Investment in unconsolidated affiliates	**45.7**	0.9
Other assets	**70.3**	96.9
Total Assets	**$ 3,445.8**	$ 3,411.9
LIABILITIES AND EQUITY (DEFICIT)		
Liabilities Not Subject to Compromise		
Current liabilities (including $2.1 due to an unconsolidated affiliate) (2008-$0.0)	**$ 196.8**	$ 239.5
Underfunded defined benefit pension plans	**359.6**	380.6
Other liabilities (including $10.5 due to an unconsolidated affiliate) (2008-$0.0)	**41.4**	41.6
Total Liabilities Not Subject to Compromise	**597.8**	661.7
Liabilities Subject to Compromise	**3,147.1**	3,112.9
Total Liabilities	**3,744.9**	3,774.6
Total W. R. Grace & Co. Shareholders' Equity (Deficit)	**(299.2)**	(426.9)
Noncontrolling interests in Chapter 11 filing entities	**0.1**	64.2
Total Equity (Deficit)	**(299.1)**	(362.7)
Total Liabilities and Equity (Deficit)	**$ 3,445.8**	$ 3,411.9

In addition to Grace's financial reporting obligations as prescribed by the SEC, the Debtors are also required, under the rules and regulations of the Bankruptcy Code, to periodically file certain statements and schedules and a monthly operating report with the Bankruptcy Court. This information is available to the public through the Bankruptcy Court. This information is prepared in a

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

format that may not be comparable to information in Grace's quarterly and annual financial statements as filed with the SEC. The monthly operating reports are not audited, do not purport to represent the financial position or results of operations of Grace on a consolidated basis, and should not be relied on for such purposes.

3. Asbestos-Related Litigation

Grace is a defendant in property damage and personal injury lawsuits relating to previously sold asbestos-containing products. As of the Filing Date, Grace was a defendant in 65,656 asbestos-related lawsuits, 17 involving claims for property damage (one of which has since been dismissed), and the remainder involving 129,191 claims for personal injury. Due to the Filing, holders of asbestos-related claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against the Debtors. The PI and PD Committees, representing the interests of asbestos personal injury and asbestos property damage claimants, respectively, and the PI FCR and PD FCR, representing the interests of future asbestos personal injury and property damage claimants, respectively, have been appointed in the Chapter 11 Cases. Grace's obligations with respect to present and future claims will be determined through the Chapter 11 process.

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

Out of 380 asbestos property damage cases (which involved thousands of buildings) filed prior to the Filing Date, 140 were dismissed without payment of any damages or settlement amounts; judgments after trial were entered in favor of Grace in nine cases; judgments after trial were entered in favor of the plaintiffs in eight cases for a total of $86.1 million; 207 property damage cases were settled for a total of $696.8 million; and 16 cases remain outstanding (including the one on appeal). Of the 16 remaining cases, eight relate to ZAI and eight relate to a number of former asbestos-containing products (two of which also are alleged to involve ZAI).

Approximately 4,300 additional PD claims were filed prior to the March 31, 2003 claims bar date established by the Bankruptcy Court. (The bar date did not apply to ZAI claims.) Grace objected to virtually all PD claims on a number of different bases, including: no authorization to file a claim; the claim was previously settled or adjudicated; no or insufficient documentation; failure to identify a Grace product; the expiration of the applicable statute of limitations and/or statute of repose, and/or laches; and a defense that the product in place is not hazardous. As of December 31, 2009, following the reclassification, withdrawal or expungement of claims, approximately 430 PD Claims subject to the March 31, 2003 bar date remain outstanding. The Bankruptcy Court has approved settlement agreements covering approximately 375 of such claims for an aggregate allowed amount of $144 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

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

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

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

At the Debtors' request, in July 2008, the Bankruptcy Court established a bar date for U.S. ZAI PD Claims and approved a related notice program that required any person with a U.S. ZAI PD Claim to submit an individual proof of claim no later than October 31, 2008. Approximately 17,960 U.S. ZAI PD Claims were filed prior to the October 31, 2008 claims bar date and, as of December 31, 2009 an additional 1,300 U.S. ZAI PD Claims were filed. As described above, on December 13, 2009, the Ontario Superior Court of Justice, in the Grace Canada, Inc. proceeding pending under the Companies' Creditors Arrangement Act, approved the Amended Settlement that would settle all Canadian ZAI PD Claims on the terms of the Joint Plan. On October 20, 2008, the Bankruptcy Court established August 31, 2009 as the bar date for Canadian ZAI PD Claims. Approximately 13,100 Canadian ZAI PD Claims were filed prior to the bar date and, as of December 31, 2009, an additional 1,000 Canadian ZAI PD Claims were filed. Under the Amended Settlement, all Canadian ZAI PD Claims filed before December 31, 2009 would be eligible to seek compensation from the Canadian ZAI property damage claims fund.

As described in Note 2, on November 21, 2008, the Debtors, the Putative Class Counsel to the U.S. ZAI property damage claimants, the PD FCR, and the Equity Committee reached an agreement in principle designed to resolve all present and future U.S. ZAI PD Claims. The terms of the U.S. and Canadian ZAI agreements in principle have been incorporated into the terms of the Joint Plan and related documents. As described below, Grace's recorded asbestos related liability does not include the agreements in principle to settle the ZAI liability that is part of the Joint Plan. The asbestos related liability at December 31, 2009, which is based on the Prior Plan, assumes the risk of loss from ZAI litigation is not probable. If the Joint Plan or another plan of reorganization reflecting the agreements in principle is not confirmed or does not become effective and Grace's view as to risk of loss from ZAI litigation is not sustained, Grace believes the cost to resolve the U.S. ZAI litigation may be material.

Personal Injury Litigation Asbestos personal injury claimants allege adverse health effects from exposure to asbestos-containing products formerly manufactured by Grace. Historically, Grace's cost to resolve such claims has been influenced by numerous variables, including the nature of the disease alleged, product identification, proof of exposure to a Grace product, negotiation factors, the solvency of other former producers of asbestos containing products, cross-claims by co-defendants, the rate at which new claims are filed, the jurisdiction in which the claims are filed, and the defense and disposition costs associated with these claims.

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

Cumulatively through the Filing Date, 16,354 asbestos personal injury lawsuits involving approximately 35,720 PI Claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved) and approximately 55,489 lawsuits involving approximately 163,698 PI Claims were disposed of (through settlements and judgments) for a total of $645.6 million. As of the Filing Date, 129,191 PI Claims were pending against Grace. Grace believes that a substantial number of additional PI Claims would have been received between the Filing Date and December 31, 2009 had such PI Claims not been stayed by the Bankruptcy Court.

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

Asbestos-Related Liability The total recorded asbestos-related liability as of December 31, 2009 and December 31, 2008, including pre-Filing Date and post-Filing Date settlements, was $1,700 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 million (this amount, plus $87 million of prepetition settlements and judgments, "the Funding Amount") was sufficient to pay, on a net present value basis, all PI Claims and PD Claims entitled to payment and related trust administration costs and expenses. Therefore, prior to the PI Settlement, the U.S. and Canadian ZAI agreements in principle and the filing of the Joint Plan, Grace was prepared to settle its asbestos-related claims at the Funding Amount as part of a consensual plan of reorganization and recorded its asbestos-related liability on that basis. The treatment of asbestos-related liabilities is significantly different under the Joint Plan than under the Prior Plan. Grace has not adjusted its accounting for asbestos-related liabilities to reflect the Joint Plan. At this time, Grace is unable to determine a reasonable estimate of the value of certain consideration payable to the PI Trust and the PD Trust under the Joint Plan. These values will ultimately be determined on the effective date of the Joint Plan. Grace expects to adjust its accounting for the Joint Plan when the consideration can be measured and material conditions to the Joint Plan are satisfied. Grace expects that such adjustments may be material to Grace's consolidated financial position and results of operations.

If the Joint Plan is not confirmed by the Bankruptcy Court, the Debtors would expect to resume the estimation trial, which was suspended in April 2008 due to the PI Settlement, to determine the amount of its asbestos-related liabilities. Through the PI Claim estimation process and the continued adjudication of PD Claims, Grace would seek to demonstrate that most claims have no value because they fail to establish any significant property damage, health impairment or occupational exposure to asbestos from Grace's operations or products. If the Bankruptcy Court agreed with Grace's position on the number of, and the amounts to be paid in respect of, allowed PI Claims and PD Claims, then Grace believes that the Funding Amount could be lower than $1,700 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 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.

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

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

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

Grace has entered into settlement agreements with various excess insurance carriers. These settlements involve amounts paid and to be paid to Grace. The unpaid maximum aggregate amount available under these settlement agreements is approximately $440 million. With respect to asbestos-related personal injury claims, the settlement agreements generally require that the claims be spread over the claimant's exposure period and that each insurer pay a pro rata portion of each claim based on the amount of coverage provided during each year of the total exposure period.

Presently, Grace has no agreements in place with insurers with respect to approximately $483 million of excess coverage. Such policies are at layers of coverage that have not yet been triggered, but certain layers would be triggered if the Prior Plan were approved at the recorded asbestos-related liability of $1,700 million. 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. Grace believes that any allowed ZAI claims also would be covered under the policies discussed above to the extent they relate to installations of ZAI occurring after July 1, 1973.

In addition, Grace has approximately $253 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.

In November 2006, Grace entered into a settlement agreement with an underwriter of a portion of its excess insurance coverage. The insurer paid a settlement amount of $90 million directly to an escrow account in respect of claims for which Grace was provided coverage under the affected policies. The settlement agreement, as amended in July 2009, provides that: unless Grace confirms a plan of reorganization by December 31, 2013, at the option of the underwriter, exercisable at any time prior to April 30, 2014, the escrow amount with interest must be returned to the underwriter; funds in the escrow account will be distributed from the account to the PI Trust as set forth in the Joint Plan; 52% of the interest accrued on the settlement amount as of March 31, 2009 will be transferred to an agent of the underwriter; and the underwriter has certain indemnification rights against Grace and the PI Trust with respect to certain claims. In October 2009, in compliance with the settlement agreement, Grace transferred approximately $3.7 million of the accrued interest to an

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

agent of the underwriter. Due to the open contingencies for the release of the amount in the escrow account, Grace has not recorded this amount or reduced its asbestos insurance receivable balance. Under the Joint Plan, the amount in the escrow account would be assigned to the PI Trust. The escrow account balance at December 31, 2009 was approximately $93.5 million, including interest earned on the account.

As of December 31, 2009, including the settlement discussed above and after subtracting previous reimbursements by insurers and allowing for discounts pursuant to certain settlement agreements, there remains approximately $923 million of excess coverage from 53 presently solvent insurers. Grace estimates that eligible claims would have to exceed $4 billion to access total coverage. Grace further estimates that, assuming the resolution value of asbestos-related claims is equal to the recorded liability of $1,700 million (which should fund claim payments in excess of $2 billion), it should be entitled to approximately $500 million of insurance recovery, including the escrow described above. 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 (PI Claim, PD Claim or ZAI PD 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 may differ materially from actual amounts received by Grace, or, if the Joint Plan is confirmed and becomes effective, the PI Trust.

4. Inventories

Inventories are stated at the lower of cost or market, and cost is determined using FIFO. Inventories consisted of the following at December 31, 2009 and December 31, 2008:

	December 31, 2009	December 31, 2008
	(In millions)	
Raw materials	**$ 48.8**	$ 63.6
In process	**36.8**	42.1
Finished products	**104.6**	212.1
Other	**30.4**	37.0
	$ 220.6	$ 354.8

5. Properties and Equipment

	2009	2008
	(In millions)	
Land	**$ 19.5**	$ 21.5
Buildings	**467.1**	460.8
Information technology and equipment	**135.9**	131.0
Machinery, equipment and other	**1,616.6**	1,577.9
Projects under construction	**62.3**	64.7
Properties and equipment, gross	**2,301.4**	2,255.9
Accumulated depreciation and amortization	**(1,611.3)**	(1,545.3)
Properties and equipment, net	**$ 690.1**	$ 710.6

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Notes to Consolidated Financial Statements (Continued)

5. Properties and Equipment (Continued)

Capitalized interest costs amounted to $0.5 million in 2009 and $0.3 million in 2008. Depreciation and lease amortization expense relating to properties and equipment amounted to $103.0 million in 2009, $109.0 million in 2008, and $104.4 million in 2007. Grace's rental expense for operating leases amounted to $20.2 million in 2009, $23.8 million in 2008, and $20.8 million in 2007.

At December 31, 2009, minimum future non-cancelable payments for operating leases were:

Minimum Future Payments Under Operating Leases

	(In millions)
2010	$ 19.8
2011	15.0
2012	11.3
2013	9.1
2014	4.3
Thereafter	7.8
Total minimum lease payments	$ 67.3

The above minimum non-cancelable lease payments are net of anticipated sublease income of $0.8 million in 2010, $0.3 million in 2011, $0.2 million in 2012, $0.2 million in 2013, $0.2 million in 2014 and $0.3 million thereafter.

6. Goodwill and Other Intangible Assets

The carrying amount of goodwill attributable to each operating segment and the changes in those balances during the year ended December 31, 2009 are as follows:

	Grace Davison	Grace Construction Products	Total Grace
		(In millions)	
Balance as of December 31, 2008	$ 54.4	$ 62.7	$ 117.1
Goodwill acquired during the year			
Goodwill related to sales of product lines		(1.3)	(1.3)
Currency translation / other adjustments	0.1	2.6	2.7
Balance as of December 31, 2009	**$ 54.5**	**$ 64.0**	**$ 118.5**

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Notes to Consolidated Financial Statements (Continued)

6. Goodwill and Other Intangible Assets (Continued)

Grace's net book value of other intangible assets at December 31, 2009 and December 31, 2008 was $61.5 million and $72.5 million, respectively, detailed as follows:

	As of December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization
	(In millions)	
Customer lists	**$ 53.4**	**$ 26.3**
Technology	**42.7**	**23.4**
Trademarks	**21.7**	**10.2**
Other	**6.4**	**2.8**
Total	**$ 124.2**	**$ 62.7**

	As of December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization
	(In millions)	
Customer lists	$ 53.6	$ 22.7
Technology	44.5	21.4
Trademarks	22.4	9.0
Other	7.9	2.8
Total	$ 128.4	$ 55.9

At December 31, 2009, estimated future annual amortization expenses for intangible assets are:

Estimated Amortization Expense

	(In millions)
2010	$ 10.2
2011	9.9
2012	9.0
2013	8.5
2014	8.2

7. Life Insurance

Grace is the beneficiary of corporate-owned life insurance ("COLI") policies on certain current and former employees with net cash surrender values of $4.4 million and $71.4 million at

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Notes to Consolidated Financial Statements (Continued)

7. Life Insurance (Continued)

December 31, 2009 and 2008, respectively. The following tables summarize activity in these policies for 2009, 2008, and 2007, and the components of net cash value at December 31, 2009 and 2008:

Life Insurance Activity Summary

	2009	2008	2007
		(In millions)	
Earnings on policy assets	**$ 1.5**	$ 4.3	$ 6.2
Interest on policy loans	**(0.3)**	(1.3)	(0.9)
Premiums	**0.3**	0.3	1.7
Proceeds from policy loans		(56.0)	
Policy loan repayments		56.0	0.1
Proceeds from termination of life insurance policies	**(68.8)**	(12.7)	(14.8)
Net investing activity	**0.3**	(0.2)	(0.5)
Change in net cash value	**$ (67.0)**	$ (9.6)	$ (8.2)
Tax-free proceeds received	**$ 0.6**	$ 0.2	$ 0.3

Components of Net Cash Value

	December 31, 2009	December 31, 2008
	(In millions)	
Gross cash value	**$ 9.8**	$ 77.5
Principal policy loans	**(5.3)**	(5.0)
Accrued interest policy loans	**(0.1)**	(1.1)
Total net cash value	**4.4**	71.4
Less: current portion		(67.2)
Net cash value long-term	**$ 4.4**	$ 4.2
Insurance benefits in force	**$ 19.2**	$ 120.7

Grace's financial statements display income statement activity and balance sheet amounts on a net basis, reflecting the contractual interdependency of policy assets and liabilities.

In March 2009, Grace surrendered and terminated life insurance policies and received approximately $68.8 million of net cash value from the terminations. As a result of the terminations, Grace's insurance benefits in force was reduced by approximately $102.4 million from December 31, 2008.

In August and December 2008, Grace received proceeds of $40.0 million and $16.0 million, respectively, through a loan against the cash value of its life insurance policies. In December 2008, Grace made loan repayments of $56.0 million. In June and November 2008, Grace surrendered and terminated life insurance policies and received approximately $8.1 million and $4.6 million, respectively, of net cash value from the terminations. As a result of the terminations, gross cash value of the policies was reduced by approximately $12.7 million. Grace's insurance benefits in force was reduced by approximately $23.5 million.

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Notes to Consolidated Financial Statements (Continued)

8. Debt

Components of Debt

	2009	2008
	(In millions)	
Debt payable within one year[1]	**$ 12.6**	$ 11.2
Debt payable after one year		
DIP facility[2]	**$**	$
Other long-term borrowings[3]	**10.9**	0.6
	$ 10.9	$ 0.6
Debt Subject to Compromise[4]		
Bank borrowings[5]	**$ 500.0**	$ 500.0
Accrued interest on bank borrowings	**350.6**	323.5
Drawn letters of credit[6]	**25.8**	25.6
Accrued interest on drawn letters of credit	**5.6**	4.4
	$ 882.0	$ 853.5
Full-year weighted average interest rates on total debt	**3.4%**	5.2%

(1) Represents borrowings under various lines of credit and other miscellaneous borrowings, primarily by non-U.S. subsidiaries, and includes $1.8 million due to an unconsolidated affiliate. At December 31, 2009, the fair value of Grace's debt payable within one year not subject to compromise approximated the recorded value of $12.6 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.

(2) The Debtors entered into a debtor-in-possession (DIP) credit facility with a syndicate of lenders that provided for up to $165 million of revolving loans and face amount of letters of credit. As of December 31, 2009 and 2008, the Debtors had no outstanding borrowings under the DIP facility. However, $70.9 million and $64.1 million of standby letters of credit were issued and outstanding under the facility as of December 31, 2009 and 2008, respectively, which were issued mainly for trade related matters such as performance bonds, as well as certain insurance and environmental matters. On February 16, 2010, the Bankruptcy Court granted Grace authority to terminate the DIP facility and replace it with a $100 million cash-collateralized letter of credit facility with a commercial bank to support current outstanding and new letters of credit.

(3) Includes $10.5 million due to an unconsolidated affiliate.

(4) At December 31, 2009, the carrying value of Grace's bank debt subject to compromise plus interest was $882.0 million. The estimated fair value of the bank debt is lower than 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.

(5) Under bank revolving credit agreements in effect prior to the Filing, Grace could borrow up to $500 million at interest rates based upon the prevailing prime, federal funds and/or Eurodollar rates. Of that amount, $250 million was available under short-term facilities that expired in May 2001, and $250 million was available under a long-term facility that expired in May 2003. As a result of the Filing, Grace is in default under the

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Notes to Consolidated Financial Statements (Continued)

8. Debt (Continued)

bank revolving credit agreements, and accordingly, the balance as of the Filing Date was reclassified to debt subject to compromise in the Consolidated Balance Sheets.

(6)
Amounts drawn on letters of credit pursuant to settled but unpaid claims.

9. Fair Value Measurements and Risk

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

1. Market Approach uses prices or other relevant information generated by market transactions involving identical or comparable assets or liabilities.

2. Income Approach uses valuation techniques to convert future amounts to a single present amount (discounted).

3. Cost Approach the amount that currently would be required to replace the service capacity of an asset (i.e., current replacement cost).

One or a combination of the approaches above can be used to calculate fair value, whichever results in the most representative fair value.

In addition to the three valuation techniques, ASC 820 prescribes a fair value hierarchy in order to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 Inputs	Quoted prices in active markets for identical assets or liabilities. A quoted price in an active market provides the most reliable evidence of fair value.
Level 2 Inputs	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability, which should reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

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

Investment Securities

Investment securities consist of direct or indirect investments in debt securities in the Columbia Strategic Cash Portfolio Fund (the "Columbia Fund"). In December 2007, the Columbia Fund began an orderly liquidation and restricted redemptions to in-kind distribution of portfolio securities. In the years ended December 31, 2009 and 2008, $22.5 million and $70.7 million, respectively, of Grace's account balance was distributed to Grace in cash. As of December 31, 2009 all units in the Columbia Fund were redeemed. Grace elected to maintain its investment in the Columbia Fund pending the orderly liquidation of the portfolio and to value its account based on the value of the underlying securities as determined by the fund principals. Grace determined the value of the fund using a market approach, which consists of matrix pricing techniques based on widely available market data and comparables as provided by the fund principals. Grace's investment in the

Notes to Consolidated Financial Statements (Continued)

9. Fair Value Measurements and Risk (Continued)

Columbia Fund was valued at $0.0 million and $21.6 million at December 31, 2009 and 2008, respectively.

Fair Value of Debt and Other Financial Instruments

See Note 8 for a discussion of the fair value of Grace's debt. At December 31, 2009, 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

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

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

In 2008 and 2009, Grace used fixed-rate swaps to mitigate the risk of natural gas price volatility. The valuation of Grace's fixed-rate natural gas swaps was determined using a market approach, based on natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of natural gas. Current open contracts hedge forecasted transactions until December 2010. 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 December 31, 2009, the contract volume, or notional amount, of the commodity contracts was 3.1 million British thermal units (MMBtu).

Beginning in 2009, Grace used fixed-rate swaps to mitigate the risk of aluminum price volatility. The valuation of Grace's fixed-rate aluminum swaps was determined using a market approach, based on aluminum futures trading prices quoted on the London Metal Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of aluminum. Current open contracts hedge forecasted transactions until December 2010. 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 December 31, 2009, the contract volume, or notional amount, of the commodity contracts was 3.1 million pounds.

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

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Notes to Consolidated Financial Statements (Continued)

9. 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 December 31, 2009, the total amount outstanding under the currency forward contracts was €247.8 million. These derivatives are not designated as hedging instruments under ASC 815.

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008:

		Fair Value Measurements at December 31, 2009 Using		
Items Measured at Fair Value on a Recurring Basis	**Total**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In millions)		
Assets				
Currency derivatives	$ 4.4	$	$ 4.4	$
Commodity derivatives	0.9		0.9	
Total Assets	**$ 5.3**	**$**	**$ 5.3**	**$**
Liabilities				
Currency derivatives	$ 1.4	$	$ 1.4	$
Commodity derivatives	0.5		0.5	
Total Liabilities	**$ 1.9**	**$**	**$ 1.9**	**$**

		Fair Value Measurements at December 31, 2008 Using		
Items Measured at Fair Value on a Recurring Basis	**Total**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**

	(In millions)							
Assets								
Available-for-sale securities	$	21.6	$		$	21.6	$	
Currency derivatives		21.0				21.0		
Total Assets	**$**	**42.6**	**$**		**$**	**42.6**	**$**	
Liabilities								
Currency derivatives	$	3.7	$		$	3.7	$	
Commodity derivatives		10.8				10.8		
Total Liabilities	**$**	**14.5**	**$**		**$**	**14.5**	**$**	

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Notes to Consolidated Financial Statements (Continued)

9. Fair Value Measurements and Risk (Continued)

The following table presents the location and fair values of derivative instruments included in the Consolidated Balance Sheet as of December 31, 2009:

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

The following tables present the location and amount of gains and losses on derivative instruments included in the Consolidated Statement of Operations or, when applicable, gains and losses initially recognized in other comprehensive income (loss) ("OCI") for the year ended December 31, 2009:

The Effect of Derivative Instruments on the Consolidated Statement of Operations for the Year Ended December 31, 2009	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
		(In millions)	
Derivatives in ASC 815 cash flow hedging relationships:			
Currency contracts	$ 0.1	Cost of goods sold	$ 0.1
Commodity contracts	(9.0)	Cost of goods sold	(20.4)
Total derivatives	**$ (8.9)**		**$ (20.3)**

	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on

		Derivative	
Derivatives not designated as hedging instruments under ASC 815:			
Currency contracts	Other income (expense)	$	(16.6)

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Notes to Consolidated Financial Statements (Continued)

9. Fair Value Measurements and Risk (Continued)

Debt and Interest Rate Swap Agreements

Grace was not a party to any debt or interest rate swaps at December 31, 2009 and December 31, 2008.

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.

10. Income Taxes

Benefit from (provision for) income taxes

The components of income (loss) from consolidated operations before income taxes and the related benefit from (provision for) income taxes for 2009, 2008 and 2007 are as follows:

Income Taxes Consolidated Operations

	2009	2008	2007
		(In millions)	
Income before income taxes:			
Domestic	**$ 225.7**	$ 14.9	$ 368.4
Foreign	**128.5**	135.6	185.9
Intercompany eliminations	**(271.5)**	(24.7)	(466.6)
	$ 82.7	$ 125.8	$ 87.7
Benefit from (provision for) income taxes:			
Federal current	**$ 40.4**	$ 4.9	$ 29.0
Federal deferred	**(15.7)**	7.8	29.8
State and local current	**(0.6)**	(1.3)	(1.3)
Foreign current	**(30.7)**	(34.8)	(66.2)
Foreign deferred	**(4.9)**	19.1	9.8
	$ (11.5)	$ (4.3)	$ 1.1

The previous table reflects the elimination of approximately $173 million and $440 million of domestic income resulting from repatriated earnings in 2009 and 2007 respectively.

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Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

The difference between the benefit from (provision for) income taxes at the U.S. federal income tax rate of 35% and Grace's overall income tax benefit (provision) is summarized as follows:

Income Tax Benefit (Provision) Analysis

	2009	2008	2007
		(In millions)	
Tax benefit (provision) at U.S. federal income tax rate	**$ (28.9)**	$ (44.0)	$ (30.8)
Change in provision resulting from:			
Nontaxable income/non-deductible expenses	**(3.3)**	(3.9)	(2.4)
State and local income taxes, net of federal income tax benefit	**(0.7)**	(0.7)	(0.7)
Federal and foreign taxes on foreign operations	**9.3**	12.2	5.0
Change in liability for unremitted foreign earnings reserve	**(2.1)**		44.8
Change in valuation allowance on deferred tax assets		14.5	
Chapter 11 expenses (non-deductible)	**(5.9)**	(4.5)	(11.4)
Tax and interest relating to tax deductibility of interest on life insurance policy loans	**(0.2)**	(0.4)	(20.1)
Impact of rate changes on deferred tax balances			3.4
Net benefit recognized upon disposition of investment		11.9	
Adjustments to tax and interest contingencies	**20.3**	10.6	13.3
Benefit from (provision for) income taxes	**$ (11.5)**	$ (4.3)	$ 1.1

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Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

Deferred tax assets and liabilities

At December 31, 2009 and 2008, the tax attributes giving rise to deferred tax assets and liabilities consisted of the following items:

Deferred Tax Analysis

	2009	2008
	(In millions)	
Deferred tax assets:		
Liability for asbestos-related litigation	**$ 595.0**	$ 595.0
Net operating loss/credit carryforwards	**46.1**	84.6
Deferred state taxes	**90.8**	130.2
Liability for environmental remediation	**52.0**	53.3
Other postretirement benefits	**25.9**	27.3
Reserves and allowances	**33.6**	50.1
Research and development	**33.8**	35.7
Pension liabilities	**195.0**	178.3
Foreign loss/credit carryforwards	**41.2**	37.7
Accrued interest on pre-petition debt	**90.4**	80.6
Other	**5.5**	11.6
Total deferred tax assets	**$ 1,209.3**	$ 1,284.4
Deferred tax liabilities:		
Asbestos-related insurance receivable	**$ (175.0)**	$ (175.0)
Deferred foreign and other income	**(2.9)**	(9.6)
Pension assets	**(23.7)**	(15.1)
Properties and equipment	**(28.2)**	(41.6)
Other	**(22.5)**	(28.7)
Total deferred tax liabilities	**$ (252.3)**	$ (270.0)
Valuation allowance:		
Deferred state taxes	**$ (90.8)**	$ (130.2)
Foreign loss carryforwards	**(1.5)**	(1.8)
Total valuation allowance	**(92.3)**	(132.0)
Net deferred tax assets	**$ 864.7**	$ 882.4

The deferred tax asset valuation allowance of $92.3 million at December 31, 2009 consists of $90.8 million related to net deferred state tax assets associated with current loss carryforwards and future tax deductions that Grace believes are not likely to provide a cash benefit, and $1.5 million related to foreign loss carryforwards that Grace believes are not likely to be used in the future. The change in the valuation allowance from December 31, 2008 to 2009 primarily represents a reduction in the valuation allowance related to state net operating losses that expired in 2009. Grace has concluded that it is more likely than not that Grace would utilize the balance of the net deferred tax assets after consideration of the valuation allowance. Because of the nature of the items that make up this balance, Grace believes that the realization period would be likely to extend over a number of years and that the outcome of the Chapter 11 Cases could materially impact the amount and the realization period.

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Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

The tax credit carryforwards at December 31, 2009 of $46.1 million consist of $26.6 million of foreign tax credit carryforwards with expiration dates through 2017; $0.6 million of general business credit carryforwards with expiration dates through 2025; and $18.9 million of alternative minimum tax credit ("AMTC") carryforwards with no expiration dates. The uncertain tax positions that might have affected our AMTC were resolved and did not result in a change in the carryforward amount.

Grace has not recorded "windfall tax benefits" of $12.9 million associated with stock option compensation that remained unrealized at the end of 2009.

Net operating losses

Under the Joint Plan, Grace would generate substantial U.S. federal net operating losses ("NOLs") upon emergence from bankruptcy. Because Grace did not pay a significant amount of U.S. income taxes in prior years and/or has already received or applied for income tax refunds from available NOL carryback years, Grace would expect to carryforward most of its NOLs after emergence from bankruptcy. Under U.S. federal income tax law, a corporation is generally permitted to carryforward NOLs for a 20-year period for deduction against future taxable income.

Grace's ability to use future tax deductions could be significantly limited if it were to undergo an ownership change during or as a result of the Chapter 11 proceeding. In order to preserve these future tax deductions, the Bankruptcy Court has approved trading restrictions on Grace common stock until the effective date of a plan of reorganization. These restrictions prohibit (without the consent of Grace) a person from acquiring more than 4.75% of the outstanding Grace common stock or, for any person already holding more than 4.75%, from increasing such person's holdings. The Joint Plan provides that under certain circumstances, Grace's Board of Directors would have the authority to impose restrictions on the transfer of Grace common stock with respect to certain 5% shareholders in order to preserve these future tax deductions. However, Grace can provide no assurance that these limitations would prevent an ownership change or that its ability to use future tax deductions would not be significantly limited as a result of any change in control. See Note 2 under the caption "Joint Plan of Reorganization Effect on Company Common Stock" for a discussion of these trading restrictions.

Unrepatriated foreign earnings

Since Grace's filing of a predecessor to the Prior Plan in November 2004, Grace has repatriated cash and promissory notes from foreign subsidiaries to support its Chapter 11 emergence funding requirements and has established deferred tax liabilities related to the expected tax cost of repatriating foreign earnings. In 2009, Grace repatriated approximately $173 million of cash from its non-U.S. subsidiaries. The tax cost of the repatriation was approximately $8.8 million. At December 31, 2009, Grace's deferred tax liability for unrepatriated foreign earnings was $2.9 million. Assuming a mid-year 2010 emergence from bankruptcy, Grace believes that this amount would be sufficient to cover the tax cost of any additional repatriations required to support its emergence from bankruptcy.

Grace has not provided for U.S. federal, state and foreign deferred income taxes on approximately $716 million of undistributed earnings of foreign subsidiaries. Grace expects that these earnings will be permanently reinvested by such subsidiaries.

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Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

Uncertain tax positions

Grace adopted ASC 740-10-25, in 2007. The effect of the adoption was to reduce Grace's accumulated deficit as of January 1, 2007 by $2.2 million. This amount reflected the recognition of U.S. federal income tax benefits relating to certain expenses incurred in defense of creditor claims and various alternative minimum tax benefits arising from prior year audits, partly offset by certain increases to reserves on foreign income and undistributed foreign earnings.

The amount of unrecognized tax benefits at December 31, 2009 was $146.7 million ($98.4 million excluding interest and penalties). The amount of unrecognized tax benefits at December 31, 2008 was $188.0 million ($134.6 million excluding interest and penalties). A reconciliation of the unrecognized tax benefits, excluding interest, for the two years ended December 31, 2009 follows:

Rollforward of Uncertain Tax Positions

	Unrecognized Tax Benefits (In millions)	
Balance as of January 1, 2008	$	123.0
Additions for current year tax positions		2.9
Additions for prior year tax positions		18.6
Reductions for prior year tax positions		(0.8)
Settlements		(2.7)
Reductions for expirations of statute of limitations		(6.4)
Balance as of December 31, 2008	$	134.6
Additions for current year tax positions		4.5
Additions for prior year tax positions		4.9
Reductions for prior year tax positions		(8.5)
Settlements		(36.1)
Reductions for expirations of statute of limitations		(1.0)
Balance as of December 31, 2009	$	98.4

Of the total unrecognized benefits of $98.4 million, the amount that, if recognized, would affect the effective tax rate is equal to $98.4 million since the uncertain tax position issues that might have affected our AMTC were resolved and did not result in a change in the AMTC carryforward amount.

Grace accrues potential interest and any associated penalties related to uncertain tax positions in "benefit from (provision for) income taxes" in the Consolidated Statements of Operations. The balances of unrecognized tax benefits in the previous table do not include accrued interest and penalties. The total amount of interest and penalties accrued on uncertain tax positions as of December 31, 2009 was $48.3 million (net of applicable tax benefit).

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 tax years that

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Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

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

Tax Jurisdiction(1)	Examination in Progress	Examination Not Yet Initiated
United States Federal[2]	1997-2001	2005-2008
United States State	1994-2006	2007-2008
Germany	None	2006-2008
United Kingdom	None	2003-2008
Singapore	None	2002-2008
France	None	2007-2008
Canada	2002-2003	2004-2008

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

(2) Grace's U.S. federal income tax returns for the tax years 1997-2001 have been examined by the U.S. Internal Revenue Service ("IRS") and, except as described below, have been resolved (Grace's U.S. tax years 2002 2004 have been examined and closed).

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

1. The settlement of a dispute with the IRS concerning the ten-year carryback of a U.S. NOL confirmed that NOLs not used in 1998 could be carried back to 1989 and subsequent years. Grace expects refunds from the use of such NOLs in subsequent years and those years are currently under review by the Joint Committee on Taxation of the U.S. Congress (the "Joint Committee"). Grace estimates that upon approval by the Joint Committee, up to approximately $11 million of additional tax benefits (including interest) would be recorded.

2. In court decisions involving taxpayers other than Grace, certain tax benefits similar to those claimed by a non-U.S. subsidiary of Grace were denied. More recently, however, one case was reversed on appeal in favor of the taxpayer. Due to the strength of its facts and the recent court decision in favor of the taxpayer, Grace believes that the tax benefits claimed by its non-U.S. subsidiary should be sustained if challenged. However, it is reasonably possible that such benefits would not be sustained. In such case, Grace estimates that the tax expense could range from $21.4 million to $52.5 million (including interest) and Grace would also expect to accelerate recognition of a deferred charge of $16.7 million.

3. As a result of the expected resolution of examination issues and settlements with U.S. federal and state tax authorities, Grace believes it is reasonably possible that the amount of unrecognized tax benefits would decrease during 2010 by approximately $28 million.

Grace received approval from the Bankruptcy Court on May 26, 2009 to enter into a settlement with the IRS with respect to the carryback to the 1989 tax year of an NOL arising in the 1998 tax year. The U.S. Tax Court approved the settlement on August 26, 2009. In the fourth quarter of 2009 Grace was notified by the IRS that the settlement was not subject to Joint Committee Review (although its impact on subsequent years is subject to such review, see paragraph 1 immediately

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Notes to Consolidated Financial Statements (Continued)

10. Income Taxes (Continued)

above). Grace received a cash refund of $39.2 million in previously deposited taxes and interest and recorded a net tax benefit of $23.5 million.

11. Pension Plans and Other Postretirement Benefits Plans

Pension Plans 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 incurred.

At the December 31, 2009 measurement date for Grace's defined benefit pension plans, the projected benefit obligation ("PBO") was approximately $1,531 million as measured under U.S. GAAP compared with $1,380 million as of December 31, 2008. The PBO basis reflects the present value (using a 5.75% discount rate for U.S. plans and a 5.71% weighted average discount rate for non-U.S. plans as of December 31, 2009) of vested and non-vested benefits earned from employee service to date, based upon current services and estimated future pay increases for active employees.

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

At December 31, 2009, Grace's recorded pension liability for underfunded and unfunded plans was $648.7 million ($372.2 million included in "underfunded defined benefit pension plans", $158.2 million included in "unfunded pay-as-you-go defined benefit pension plans", $12.9 million included in "other current liabilities", and $105.4 million related to noncurrent supplemental pension benefits, included in "liabilities subject to compromise"). The recorded liability reflects 1) the shortfall between plan assets and the PBO of underfunded plans ($372.2 million); and 2) the PBO of unfunded pay-as-you-go plans ($276.5 million).

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

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

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

For 2009 measurement purposes, per capita costs, before retiree contributions, were assumed to initially increase at a rate of 8.0%. The rate is assumed to decrease gradually to 5% through 2014 and remain at that level thereafter. A one percentage point increase or decrease in assumed health care medical cost trend rates would not materially change Grace's postretirement benefit obligations (impact of less than $1 million) and would have a negligible impact on the aggregate of the service and interest cost components of net periodic benefit cost.

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 was $11.8 million, $12.7 million, and $12.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

Analysis of Plan Accounting and Funded Status The following table summarizes the changes in benefit obligations and fair values of retirement plan assets during 2009 and 2008:

	Defined Benefit Pension Plans						Other Post-Retirement Plans	
	U.S.		Non-U.S.		Total			
nge in Financial Status of Retirement Plans	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**200**
				(In millions)				
nge in Projected Benefit Obligation (PBO)								
efit obligation at beginning of year	**$ 1,046.9**	$ 1,032.6	**$ 332.9**	$ 416.4	**$ 1,379.8**	$ 1,449.0	**$ 73.2**	$ 84
ice cost	**16.4**	16.3	**6.4**	8.4	**22.8**	24.7	**0.2**	(
est cost	**62.9**	62.1	**21.1**	22.8	**84.0**	84.9	**4.3**	4
participants' contributions			**0.6**	0.7	**0.6**	0.7		
ailments/settlements recognized				(2.6)		(2.6)		
arial (gain) loss	**66.4**	0.2	**38.1**	(29.1)	**104.5**	(28.9)	**(4.8)**	(9
icare subsidy receipts							**3.1**	(
efits paid	**(64.3)**	(64.3)	**(20.9)**	(20.3)	**(85.2)**	(84.6)	**(6.7)**	(7
ency exchange translation adjustments			**24.6**	(63.4)	**24.6**	(63.4)		
efit obligation at end of year	**$ 1,128.3**	$ 1,046.9	**$ 402.8**	$ 332.9	**$ 1,531.1**	$ 1,379.8	**$ 69.3**	$ 73
nge in Plan Assets								
value of plan assets at beginning of year	**$ 560.5**	$ 773.7	**$ 226.0**	$ 314.4	**$ 786.5**	$ 1,088.1	**$**	$
al return on plan assets	**118.6**	(203.1)	**11.6**	(3.1)	**130.2**	(206.2)		
loyer contributions	**43.1**	54.2	**18.3**	13.5	**61.4**	67.7	**3.6**	6
participants' contributions			**0.6**	0.7	**0.6**	0.7		
ements recognized				(2.6)		(2.6)		
icare subsidy receipts							**3.1**	(
efits paid	**(64.3)**	(64.3)	**(20.9)**	(20.3)	**(85.2)**	(84.6)	**(6.7)**	(7
ency exchange translation adjustments			**25.6**	(76.6)	**25.6**	(76.6)		
value of plan assets at end of year	**$ 657.9**	$ 560.5	**$ 261.2**	$ 226.0	**$ 919.1**	$ 786.5	**$**	$
led status at end of year (PBO basis)	**$ (470.4)**	$ (486.4)	**$ (141.6)**	$ (106.9)	**$ (612.0)**	$ (593.3)	**$ (69.3)**	$ (73
ounts recognized in the Consolidated nce Sheet consist of:								
current assets	**$ 0.2**	$ 0.2	**$ 36.5**	$ 48.4	**$ 36.7**	$ 48.6	**$**	$
ent liabilities	**(5.6)**	(5.4)	**(7.3)**	(6.9)	**(12.9)**	(12.3)	**(3.5)**	(4
current liabilities	**(465.0)**	(481.2)	**(170.8)**	(148.4)	**(635.8)**	(629.6)	**(65.8)**	(69
amount recognized	**$ (470.4)**	$ (486.4)	**$ (141.6)**	$ (106.9)	**$ (612.0)**	$ (593.3)	**$ (69.3)**	$ (73

ounts recognized in Accumulated Other nprehensive (Income) Loss consist of:									
umulated actuarial loss	**$ 701.8**	$ 743.0	**$ 119.8**	$ 80.7	**$ 821.6**	$ 823.7	**$ 10.2**	$	1
r service cost (credit)	**5.3**	6.5	**0.1**	0.3	**5.4**	6.8	**(4.1)**		(8
amount recognized	**$ 707.1**	$ 749.5	**$ 119.9**	$ 81.0	**$ 827.0**	$ 830.5	**$ 6.1**	$	7
ghted Average Assumptions Used to rmine Benefit Obligations as of ember 31									
ount rate	**5.75%**	6.25%	**5.71%**	6.24%	**NM**	NM	**5.50%**		6.
of compensation increase	**4.50%**	4.50%	**3.47%**	3.53%	**NM**	NM	**NM**		N
ghted Average Assumptions Used to rmine Net Periodic Benefit Cost (Income) Years Ended December 31									
ount rate	**6.25%**	6.25%	**6.24%**	5.81%	**NM**	NM	**6.25%**		6.
ected return on plan assets	**8.00%**	8.00%	**6.25%**	6.43%	**NM**	NM	**NM**		N
of compensation increase	**4.50%**	4.50%	**3.53%**	3.55%	**NM**	NM	**NM**		N

NM Not meaningful

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

ost (Income) and Other Amounts Recognized in Other Comprehensive (Income) Loss	2009 U.S.	2009 Non-U.S.	2009 Other	200 U.S.	Non-
				(In mi	
	$ 16.4	**$ 6.4**	**$ 0.2**	$ 16.3	$
	62.9	**21.1**	**4.3**	62.1	
	(44.0)	**(15.1)**		(62.0)	(
)	**1.2**	**0.2**	**(4.1)**	1.5	
ss	**32.9**	**3.1**	**0.9**	19.9	
		0.5			
	$ 69.4	**$ 16.2**	**$ 1.3**	$ 37.8	$
efit Obligations Recognized in Other Comprehensive (Income) Loss					
	$ (8.2)	**$ 42.7**	**$ (4.8)**	$ 265.3	$ (
)	**(1.2)**	**(0.2)**	**4.1**	(1.5)	
ss	**(32.9)**	**(3.6)**	**(0.9)**	(19.9)	
(income) loss	**(42.3)**	**38.9**	**(1.6)**	243.9	(
cost (income) and other comprehensive (income) loss	**$ 27.1**	**$ 55.1**	**$ (0.3)**	$ 281.7	$

The estimated net deferred actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost (income) over the next fiscal year are $37.2 million and $1.1 million, respectively. The estimated net deferred actuarial loss and prior service credit for the other postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost (income) over the next fiscal year are $0.5 million and $(4.1) million, respectively.

unded Status of U.S. Pension Plans	Fully-Funded U.S.(1) Qualified Pension Plans 2009	2008	2007	Underfunded U.S.(1) Qualified Pension Plans 2009	2008	2007	Unfunded Pay-As-You-Go(2) U.S. Nonqualified Plans 2009	2008	2007
					(In millions)				
rojected benefit obligation	**$ 0.3**	$ 0.3	$ 6.8	**$ 1,017.0**	$ 940.6	$ 925.0	**$ 111.0**	$ 106.0	$ 100.8
air value of plan assets	**0.5**	0.5	8.3	**657.4**	560.0	765.4			
unded status (PBO basis)	**$ 0.2**	$ 0.2	$ 1.5	**$ (359.6)**	$ (380.6)	$ (159.6)	**$ (111.0)**	$ (106.0)	$ (100.8)
enefits paid	**$**	$	$ (0.3)	**$ (59.0)**	$ (59.2)	$ (82.5)	**$ (5.3)**	$ (5.1)	$ (5.1)
iscount rate	**5.75%**	6.25%	6.25%	**5.75%**	6.25%	6.25%	**5.75%**	6.25%	6.25

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

	Fully-Funded Non-U.S.(1) Pension Plans			Underfunded Non-U.S.(1) Pension Plans			Unfunded Pay-As-You-Go(2) Non-U.S. Pension Plans		
nded Status of Non-U.S. Pension Plans	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
					(In millions)				
jected benefit obligation	**$ 213.9**	$ 169.1	$ 248.0	**$ 23.4**	$ 20.2	$ 23.3	**$ 165.5**	$ 143.6	$ 145.
r value of plan assets	**250.4**	217.5	300.6	**10.8**	8.5	13.8			
ded status (PBO basis)	**$ 36.5**	$ 48.4	$ 52.6	**$ (12.6)**	$ (11.7)	$ (9.5)	**$ (165.5)**	$ (143.6)	$ (145.
efits paid	**$ (10.8)**	$ (10.7)	$ (11.2)	**$ (2.7)**	$ (2.3)	$ (2.8)	**$ (7.4)**	$ (7.3)	$ (6.
ighted average discount rate	**5.86%**	6.58%	5.77%	**7.60%**	6.92%	8.16%	**5.24%**	5.74%	5.4

(1)
Plans intended to be advance-funded.

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

The accumulated benefit obligation for all defined benefit pension plans was approximately $1,453 million and $1,311 million as of December 31, 2009 and 2008, respectively.

	U.S.		Non-U.S.		Total	
nsion Plans with Underfunded or Unfunded Accumulated Benefit Obligation	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
			(In millions)			
jected benefit obligation	**$ 1,128.0**	$ 1,046.6	**$ 184.9**	$ 159.8	**$ 1,312.9**	$ 1,20
cumulated benefit obligation	**1,087.2**	1,008.5	**166.6**	143.8	**1,253.8**	1,15
r value of plan assets	**$ 657.4**	$ 560.0	**$ 7.3**	$ 4.8	**$ 664.7**	$ 56

	Pension Plans		Other Postretirement Plans		
	U.S.(1)	Non-U.S.(2)			Total
Estimated Expected Future Benefit Payments Reflecting Future Service and Medicare Subsidy Receipts for the Fiscal Year(s) Ending	**Benefit Payments(3)**	**Benefit Payments**	**Benefit Payments**	**Medicare Subsidy Receipts**	**Payments Net of Subsidy**
			(In millions)		
2007 (actual)	$ 87.9	$ 20.4	$ 9.8	$ (4.8)	$ 113.3
2008 (actual)	64.3	20.3	7.1	(0.5)	91.2
2009 (actual)	64.3	20.9	6.7	(3.1)	88.8

2010		71.0		19.2		7.1		(3.5)		93.8
2011		74.0		20.4		7.0		(0.7)		100.7
2012		78.6		21.7		6.9		(0.1)		107.1
2013		79.7		23.5		6.7		(0.1)		109.8
2014		80.5		25.2		6.6		(0.1)		112.2
2015 - 2019	$	421.6	$	134.2	$	29.9	$	(0.3)	$	585.4

(1)

Effective January 1, 2008 lump sum distributions from certain U.S. qualified pension plans were restricted based on the provisions of the Pension Protection Act of 2006 (the "Act"). During the period the plan is less than 100% funded after that date, the Act prohibits the distribution of lump sums to retiring participants while the Company remains under Chapter 11 of the U.S. Bankruptcy Code. The plan would be permitted to resume distributing lump sums to retiring participants under the Act at the date (1) the plan becomes 100% funded or (2) the Company is no longer in Chapter 11 and the plan is at least 80% funded, whichever is earlier.

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

(2) Non-U.S. estimated benefit payments for 2010 and future periods have been translated at the applicable December 31, 2009 exchange rates.

(3) Excludes $21 million of estimated future benefit payments from nonqualified plans that are restricted by the Bankruptcy Court, which the Company expects to pay upon emergence from Chapter 11.

Discount Rate Assumption 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 overall market interest rates. For the U.S. qualified pension plans, the assumed discount rate of 5.75% as of December 31, 2009 was selected by Grace, in consultation with its independent actuaries, based on a yield curve constructed from a portfolio of high quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plan.

As of December 31, 2009 and 2008, the United Kingdom pension plan and German pension plans combined represented approximately 84% and 85%, respectively, of the benefit obligation of the non-U.S. pension plans. The assumed discount rates as of December 31, 2009 for the United Kingdom (5.75%) and Germany (5.25%) were selected by Grace, in consultation with its independent actuaries, based on yield curves constructed from a portfolio of Sterling and Euro denominated high quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plans. The assumed discount rates for the remaining non-U.S. pension plans were determined based on the nature of the liabilities, local economic environments and available bond indices.

Investment Guidelines for Advance-Funded Pension Plans The target allocation of investment assets for 2010, the actual allocation at December 31, 2009 and 2008, and the expected long-term rate of return by asset category for Grace's U.S. qualified pension plans are as follows:

U.S. Qualified Pension Plans Asset Category	Target Allocation 2010	Percentage of Plan Assets December 31, 2009	Percentage of Plan Assets December 31, 2008	Weighted-Average Expected Long-Term Rate of Return 2009
U.S. equity securities	45%	**47%**	43%	4.46
Non-U.S. equity securities	15%	**16%**	15%	0.76
Short-term debt securities	10%	**11%**	13%	0.60
Intermediate-term debt securities	30%	**26%**	29%	2.18
Total	100%	**100%**	100%	8.00

The investment goal for the U.S. qualified pension plans subject to advance funding is to earn a long-term rate of return consistent with the related cash flow profile of the underlying benefit obligation.

The U.S. qualified pension plans have assets managed by five investment managers under investment guidelines summarized as follows:

- For debt securities: single issuers are limited to 5% of the portfolio's market value (with the exception of U.S. government and agency securities); the average credit quality of the portfolio shall be at least A rated; no more than 20% of the market value of the portfolio shall be invested in non-dollar denominated bonds; and privately placed securities are limited to no more than 50% of the portfolio's market value.

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

For U.S. equity securities: the portfolio is entirely passively managed through investment in the Dow Jones U.S. Total Stock Market index fund, which is invested primarily in equity securities with the objective of approximating as closely as possible the capitalization weighted total rate of return of the entire U.S. market for publicly traded securities.

For non-U.S. equity securities: no individual security shall represent more than 5% of the portfolio's market value at any time; investment in U.S. common stock securities is prohibited (with the exception of American Depository Receipts) and emerging market securities may represent up to 30% of the total portfolio's market value. Currency futures and forward contracts may be held for the sole purpose of hedging existing currency risk in the portfolio.

For 2009, the expected long-term rate of return on assets for the U.S. qualified pension plans was 8%. Average annual returns over one, two, three, five, ten and fifteen-year periods were 22.6%, (4.7%), (1.2%), 2.9%, 2.3%, and 6.5%, respectively. Significant negative returns across broad asset class categories in 2008 caused negative returns in the two- and three-year periods.

The expected return on plan assets for the U.S. qualified pension plans is based on a comparison to historical actual returns and benchmark data. Grace looks at the trailing 20-year and 25-year returns on the plan portfolio under the current target equity to fixed income allocation of 60%/40% to determine a weighted-average rate of return based on historical data. These results are then compared with historical returns of balanced fund indices, as provided by our independent actuaries.

The balanced fund indices are composites of the S&P 500 and the Barclays Capital Gov't/Credit indices. Grace then evaluates the estimated rates and selects a rate that it believes to be reasonable and submits that rate for review by our independent actuaries for reasonableness.

The following table presents the fair value hierarchy for the U.S. qualified pension plan assets measured at fair value as of December 31, 2009. See Note 9 for further discussion regarding the fair value hierarchy.

	Fair Value Measurements at December 31, 2009 Using			
Assets Measured at Fair Value U.S. Qualified Pension Plans	**Total**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In millions)			
Common/collective trust funds	$ 560.8	$	$ 560.8	$
Corporate bonds	38.6		38.6	
Government and agency securities	16.4		16.4	
Asset backed securities	27.4		27.4	
Annuity and immediate participation contracts	13.8		13.8	
Short-term investments	2.3	0.3	2.0	
Other investments, net	(1.4)		(1.1)	(0.3)
Total Assets	**$ 657.9**	**$ 0.3**	**$ 657.9**	**$ (0.3)**

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

The following table presents a summary of the changes in the fair value of the U.S. qualified pension plans' level 3 assets for the year ended December 31, 2009:

Assets Measured at Fair Value U.S. Qualified Pension Plans	Year Ended December 31, 2009 Asset Backed Securities	Other Investments, Net (In millions)	Other Receivables/ Payables, Net
Balance, beginning of year	$ 0.3	$ (0.1)	$ (0.3)
Net appreciation (depreciation) and interest income	0.1	(0.1)	
Purchases, sales, issuances, and settlements, net	(0.3)	(0.1)	0.3
Transfers in and/or out of level 3	(0.1)		
Balance, end of year	**$**	**$ (0.3)**	**$**

Non-U.S. pension plans accounted for approximately 28% and 29% of total global pension assets at December 31, 2009 and 2008, respectively. Each of these plans, where applicable, follows local requirements and regulations. Some of the local requirements include the establishment of a local pension committee, a formal statement of investment policy and procedures, and routine valuations by plan actuaries.

The target allocation of investment assets for non-U.S. pension plans varies depending on the investment goals of the individual plans. The plan assets of the United Kingdom pension plan represent approximately 81% and 83% of the total non-U.S. pension plan assets at December 31, 2009 and 2008, respectively. In determining the expected rate of return for the UK plan, the trustees' strategic investment policy has been considered together with long-term historical returns and investment community forecasts for each asset class. The expected return by sector has been combined with the actual asset allocation to determine the 2009 expected long-term return assumption of 6%.

The target allocation of investment assets for 2010, the actual allocation at December 31, 2009 and 2008, and the expected long-term rate of return by asset category for Grace's United Kingdom pension plan are as follows:

United Kingdom Pension Plans Asset Category	Target Allocation 2010	Percentage of Plan Assets December 31, 2009	2008	Weighted-Average Expected Long-Term Rate of Return 2009
Equity securities	8%	**8%**	8%	1.49
U.K. gilts	29%	**27%**	19%	0.86
U.K. corporate bonds	63%	**62%**	63%	3.65
Cash/other	0%	**3%**	10%	0.00
Total	100%	**100%**	100%	6.00

The plan assets of the Canadian pension plans represent approximately 8% and 6% of the total non-U.S. pension plan assets at December 31, 2009 and 2008, respectively. The target allocation of

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

investment assets for 2010, the actual allocation at December 31, 2009 and 2008, and the expected long-term rate of return by asset category for Grace's Canadian pension plans are as follows:

Canadian Pension Plans Asset Category	Target Allocation 2010	Percentage of Plan Assets December 31, 2009	2008	Weighted-Average Expected Long-Term Rate of Return 2009
Equity securities	60%	**60%**	55%	3.90
Bonds	40%	**40%**	45%	3.10
Total	100%	**100%**	100%	7.00

The plan assets of the other country plans represent approximately 11% in the aggregate (with no country representing more than 3% individually) of total non-U.S. pension plan assets at December 31, 2009 and 2008.

The following table presents the fair value hierarchy for the non-U.S. pension plan assets measured at fair value as of December 31, 2009.

		Fair Value Measurements at December 31, 2009 Using		
Assets Measured at Fair Value Non-U.S. Pension Plans	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In millions)		
Common/collective trust funds	$ 241.2	$	$ 241.2	$
Corporate bonds	0.9		0.9	
Government and agency securities	1.3		1.3	
Insurance contracts and other investments	9.7		9.7	
Cash	8.1	8.1		
Total Assets	**$ 261.2**	**$ 8.1**	**$ 253.1**	**$**

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 June 24, 2009, Grace obtained Bankruptcy Court approval to fund minimum required payments under the U.S. qualified pension plans of approximately $30 million for the period from July 2009 through January 2010. In that regard, Grace contributed approximately $8 million in July 2009, approximately $5 million in September 2009, approximately $9 million in October 2009, and approximately $8 million in January 2010 to the trusts that hold assets of the U.S. qualified pension plans. While Grace intends to continue to fund all minimum required payments under the U.S. qualified pension plans, there can be no assurance that the Bankruptcy Court will continue to approve these payments. Based on the U.S. qualified pension plan's status as of December 31, 2009, Grace's ERISA funding obligations for 2010 would be approximately $46 million.

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Notes to Consolidated Financial Statements (Continued)

11. Pension Plans and Other Postretirement Benefits Plans (Continued)

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 expects to contribute approximately $13 million to its non-U.S. pension plans and approximately $7 million (excluding any Medicare subsidy receipts) to its other postretirement plans in 2010.

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.

12. Other Balance Sheet Accounts

	December 31, 2009	December 31, 2008
	(In millions)	
Other Assets		
Deferred charges	**$ 29.1**	$ 33.5
Cash value of life insurance policies, net of policy loans	**4.4**	4.2
Long-term receivables	**0.6**	0.9
Patents, licenses and other intangible assets, net	**61.5**	72.5
Fair value of currency forward contracts	**1.3**	21.0
Other assets	**8.1**	9.3
	$ 105.0	$ 141.4
Other Current Liabilities		
Accrued compensation	**$ 101.0**	$ 88.1
Customer volume rebates	**33.0**	37.7
Accrued commissions	**11.6**	13.0
Accrued Chapter 11 reorganization expenses	**15.7**	23.9
Income tax payable	**23.9**	15.9
Deferred tax liability	**6.0**	7.9
Fair value of currency forward and commodity contracts	**1.9**	14.5
Other accrued liabilities	**114.8**	113.3
	$ 307.9	$ 314.3

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.

13. Commitments and Contingent Liabilities

See Note 3 for information regarding Grace's asbestos liabilities.

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

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Notes to Consolidated Financial Statements (Continued)

13. Commitments and Contingent Liabilities (Continued)

assessment has indicated that a probable liability has been incurred and the cost can be reasonably estimated. These accruals do not take into account any discounting for the time value of money.

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

At December 31, 2009, Grace's estimated liability for environmental investigative and remediation costs totaled $148.4 million, compared with $152.2 million at December 31, 2008. The amount is based on funding and/or remediation agreements in place, including the Multi-Site Agreement described below, and Grace's best estimate of its cost for sites not subject to a formal remediation plan. Grace's estimated environmental liabilities are included in "liabilities subject to compromise" in the accompanying Consolidated Balance Sheets.

Grace recorded pre-tax charges of $4.4 million, $14.6 million, and $17.0 million for environmental matters in 2009, 2008, and 2007, respectively. Of the pre-tax charges, $2.5 million, $5.0 million, and $14.4 million in 2009, 2008, and 2007, respectively, were in connection with cost recovery obligations arising out of a lawsuit brought by the U.S. Government in Libby, Montana. The remainder of the pre-tax charges were attributable to the ongoing review of environmental liabilities.

Net cash expenditures charged against previously established liabilities for the twelve months ended December 31, 2009, 2008, and 2007 were $7.7 million, $256.9 million and $9.5 million, respectively. Cash expenditures in 2008 included a payment of $252 million related to the settlement of the cost recovery claim with respect to Libby, Montana.

Multi-Site Settlement

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

Vermiculite Related Matters

During 2008, Grace paid $250 million plus accrued interest of approximately $2 million pursuant to an agreement (the "EPA Cost Recovery Agreement"), between Grace and the U.S. Department of

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Notes to Consolidated Financial Statements (Continued)

13. Commitments and Contingent Liabilities (Continued)

Justice to settle the EPA's cost recovery claims for all past and future remediation costs with respect to Grace's former Libby operations, except for those relating to the Grace-owned Libby vermiculite mine.

Grace's total estimated liability for asbestos remediation related to its former vermiculite operations in Libby, including the cost of remediation at vermiculite processing sites outside of Libby, at December 31, 2009 and 2008 was $51.6 million and $48.4 million, respectively, excluding interest where applicable and is recorded in Environmental Contingencies in the Consolidated Balance Sheets. The estimated obligation as of each date does not include the cost to remediate the Grace-owned Libby vermiculite mine, which is not currently estimable.

During 2009, Grace learned that EPA may reinvestigate approximately 100 former or currently operating plants at which vermiculite concentrate from the Grace-owned Libby vermiculite mine was expanded. Of these expansion plants, seven are currently owned by Grace. Grace is unable to determine the possible results of any reinvestigation and whether it may result in additional claims by EPA. The estimated obligation as of December 31, 2009 does not include any costs in respect of this reinvestigation or any additional EPA claims, which costs if any, are not currently estimable.

New Jersey Claims In 2005, the New Jersey Department of Environmental Protection ("NJDEP") filed a lawsuit against Grace and two former employees *(N.J. Dept. of Environmental Protection v. W. R. Grace & Co. et al.),* seeking civil penalties for alleged misrepresentations and false statements made in a Preliminary Assessment/Site Investigation Report and Negative Declarations submitted by Grace to the NJDEP in 1995 pursuant to the New Jersey Industrial Site Recovery Act. Grace submitted the report, which was prepared by an independent environmental consultant, in connection with the closing of Grace's former vermiculite expansion plant in Hamilton Township, New Jersey. In 2005, the Bankruptcy Court stayed this lawsuit. In April 2008, the Bankruptcy Court issued a ruling stating that the lawsuit filed by the NJDEP was in violation of the automatic stay and enjoining further pursuit of all claims in the lawsuit. In March 2009, the Delaware District Court upheld the Bankruptcy Court's ruling. In April 2009, the NJDEP appealed this ruling to the U.S. Court of Appeals for the Third Circuit. In April 2007, New Jersey filed a motion for leave to file a late proof of claim in the amount of $31 million with respect to substantially the same claims set forth in the lawsuit described in the preceding paragraph. In August 2007, the Bankruptcy Court denied this motion and the District Court affirmed this ruling on appeal in March 2008. In April 2008, New Jersey appealed this ruling to the U.S. Court of Appeals for the Third Circuit (the "Third Circuit").

On October 19, 2009, the Debtors, the two former employees and the NJDEP entered into a stipulation in the amount of $1.0 million that would resolve the NJDEP's claims and terminate all of the litigation described above, including the appeals pending in the Third Circuit. The settlement amount is payable to NJDEP upon Grace's emergence from bankruptcy.

Non-Vermiculite Related Matters

At December 31, 2009 and 2008, Grace's estimated liability for remediation of sites not related to its former vermiculite mining and processing activities was $96.8 million and $103.8 million, respectively and is recorded in Environmental Contingencies in the Consolidated Balance Sheets . This liability relates to Grace's current and former operations, including its share of liability for off-site disposal at facilities where it has been identified as a potentially responsible party. Grace's estimated liability is based upon an evaluation of claims for which sufficient information was available. As

Notes to Consolidated Financial Statements (Continued)

13. Commitments and Contingent Liabilities (Continued)

Grace receives new information and continues its claims evaluation process, its estimated liability may change materially.

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

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

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

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

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

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

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

- Guarantees of real property lease obligations of third parties, typically arising out of (a) leases entered into by former subsidiaries of Grace, or (b) the assignment or sublease of a lease by Grace to a third party.

Financial Assurances Financial assurances have been established for a variety of purposes, including insurance and environmental matters, asbestos settlements and appeals, trade-related commitments and other matters. At December 31, 2009, Grace had gross financial assurances issued and outstanding of $252.8 million, comprised of $102.2 million of surety bonds issued by various insurance companies, and $150.6 million of standby letters of credit and other financial assurances issued by various banks. As discussed in Note 8, $70.9 million of these financial assurances have been issued under the DIP facility.

Accounting for Contingencies Although the outcome of each of the matters discussed above cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under U.S. GAAP. As a result of the Filing, claims related to certain of the items

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Notes to Consolidated Financial Statements (Continued)

13. Commitments and Contingent Liabilities (Continued)

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 December 31, 2009.

14. Restructuring Expenses and Related Asset Impairments

In 2009, Grace implemented cost reduction and restructuring programs to further improve productivity. Grace accrued $19.1 million, $5.9 million, $1.9 million, and $6.5 million of restructuring expenses and related asset impairments in each of the four quarters of 2009, respectively. The restructuring programs include worldwide involuntary restructuring programs, a U.S. voluntary early retirement restructuring program, and the planned closing of a manufacturing facility in Slough, U.K., which included a charge for asset impairments of $3.8 million. Grace expects substantially all costs of these programs to be paid by December 31, 2010.

	December 31,	
	2009	2008
	(In millions)	
Restructuring Expenses and Related Asset Impairments:		
Severance and other employee related costs	**$ 29.6**	$ 5.2
Asset impairments	**3.8**	
Total Restructuring Expenses and Related Asset Impairments	**$ 33.4**	$ 5.2

	December 31,	
	2009	2008
	(In millions)	
Restructuring Liability:		
Beginning Balance	**$ 0.7**	$
Accruals for severance and other employee related costs	**29.6**	5.2
Payments	**(17.5)**	(4.5)
Currency translation adjustments and other	**0.7**	
Total Restructuring Liability	**$ 13.5**	$ 0.7

	December 31,	
	2009	2008
Employee Reduction by Operating Segment:		
Grace Davison	**183**	
Grace Construction Products	**224**	121
Corporate	**76**	8
Total	**483**	129

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Notes to Consolidated Financial Statements (Continued)

15. Other (Income) Expense, net

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

	2009	2008	2007
		(In millions)	
Income from insurance settlements with insolvent insurance companies	**$**	$ (0.1)	$ (1.0)
Net income from life insurance policies	**(1.2)**	(3.0)	(5.4)
Interest income of non-Debtor subsidiaries	**(1.4)**	(3.8)	(7.6)
Net (gain) loss on disposals of assets	**(1.5)**	(14.1)	(2.9)
Translation effects intercompany loans	**(11.0)**	6.9	(10.5)
Value of currency forward contracts intercompany loans	**15.9**	(10.7)	8.2
Other currency transaction effects	**8.3**	4.5	3.0
Other miscellaneous (income) expense	**7.5**	(5.8)	(18.5)
Total other (income) expense, net	**$ 16.6**	$ (26.1)	$ (34.7)

16. Comprehensive Income (Loss)

The following tables present the pre-tax, tax, and after-tax components of Grace's other comprehensive income (loss) for the years ended December 31, 2009, 2008, and 2007:

Year Ended December 31, 2009	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
		(In millions)	
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	$ (2.7)	$ 1.0	$ (1.7)
Amortization of net deferred actuarial loss included in net periodic benefit cost	37.4	(12.9)	24.5
Net deferred actuarial loss arising during period	(29.7)	7.9	(21.8)
Benefit plans, net	5.0	(4.0)	1.0
Currency translation adjustments	38.1		38.1
Gain (loss) from hedging activities	11.4	(3.9)	7.5
Unrealized loss on investment	(0.8)		(0.8)
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	$ 53.7	$ (7.9)	$ 45.8

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Notes to Consolidated Financial Statements (Continued)

16. Comprehensive Income (Loss) (Continued)

Year Ended December 31, 2008	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
		(In millions)	
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	$ (6.3)	$ 2.2	$ (4.1)
Amortization of net deferred actuarial loss included in net periodic benefit cost	27.4	(9.3)	18.1
Net deferred actuarial loss arising during period	(245.3)	86.4	(158.9)
Benefit plans, net	(224.2)	79.3	(144.9)
Currency translation adjustments	(58.7)		(58.7)
Gain (loss) from hedging activities	(10.1)	3.5	(6.6)
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	$ (293.0)	$ 82.8	$ (210.2)

Year Ended December 31, 2007	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
		(In millions)	
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	$ (6.5)	$ 2.3	$ (4.2)
Amortization of net deferred actuarial loss included in net periodic benefit cost	28.4	(9.7)	18.7
Net deferred actuarial loss arising during period	(29.1)	9.9	(19.2)
Benefit plans, net	(7.2)	2.5	(4.7)
Currency translation adjustments	43.7	0.9	44.6
Gain (loss) from hedging activities	0.9	(0.1)	0.8
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	$ 37.4	$ 3.3	$ 40.7

The following table presents the components of Grace's accumulated other comprehensive income (loss) at December 31, 2009, 2008, and 2007:

Components of Accumulated Other Comprehensive Income (Loss)	December 31, 2009	2008	2007
		(In millions)	
Defined benefit pension and other postretirement plans:			
Net prior service credit (net of tax)	**$ (0.9)**	$ 0.8	$ 4.9
Net deferred actuarial loss (net of tax)	**(542.8)**	(545.5)	(404.7)
Benefit plans, net	**(543.7)**	(544.7)	(399.8)
Currency translation	**29.6**	(8.5)	50.2
Hedging activities, net of tax	**0.4**	(7.1)	(0.5)
Unrealized loss on investment	**(0.8)**		

Accumulated other comprehensive income (loss)	**$ (514.5)**	$ (560.3)	$ (350.1)

Notes to Consolidated Financial Statements (Continued)

16. Comprehensive Income (Loss) (Continued)

Accumulated other comprehensive income (loss) related to the defined benefit pension and other postretirement plans at December 31, 2009, 2008, and 2007, respectively, represents the accumulation of net actuarial losses of $542.8 million, $545.5 million, and $404.7 million as well as net prior service credits of $(0.9) million, $0.8 million and $4.9 million. These amounts are net of tax and are amortized as a component of net periodic benefit cost. For the years ended December 31, 2009, 2008, and 2007, the pre-tax benefit recognized related to prior service credits was $2.7 million, $6.3 million, and $6.5 million, respectively, and the pre-tax expense recognized for amortization of accumulated actuarial losses was $37.4 million, $27.4 million, and $28.4 million, respectively. In addition, pre-tax loss of $29.7 million, $245.3 million and $29.1 million was recognized for changes in funded status during the years ended December 31, 2009, 2008, and 2007, 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 9 for a discussion of hedging activities.

17. Shareholders' Equity (Deficit)

Under its Certificate of Incorporation, the Company is authorized to issue 300,000,000 shares of common stock, $0.01 par value. Of the common stock unissued at December 31, 2009, 4,172,206 shares were reserved for issuance pursuant to stock options and other stock incentives. For the years ended December 31, 2009, 2008, and 2007, 125,800, 529,617, and 2,712,879 stock options were exercised for aggregate proceeds of $1.4 million, $9.6 million, and $40.1 million, respectively.

18. Stock Incentive Plans

Each stock option granted under the Company's stock incentive plans has an exercise price equal to the fair market value of the Company's common stock on the date of grant. Options become exercisable at the time or times determined by the Compensation Committee of the Board of Directors and may have terms of up to ten years and one month.

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Notes to Consolidated Financial Statements (Continued)

18. Stock Incentive Plans (Continued)

The following table sets forth information relating to such options during 2009, 2008, and 2007:

Stock Option Activity	Number Of Shares	Average Exercise Price
Balance at January 1, 2007	4,596,881	$ 14.18
Options exercised	(2,712,879)	14.79
Options terminated	(15,039)	10.70
Balance at December 31, 2007	1,868,963	$ 13.33
Options exercised	(529,617)	18.20
Options terminated	(134,600)	17.20
Options granted	1,988,900	19.71
Balance at December 31, 2008	3,193,646	$ 16.33
Options exercised	(125,800)	10.67
Options forfeited	(66,660)	17.44
Options terminated	(424,510)	14.83
Options granted	1,595,530	9.93
Balance at December 31, 2009	**4,172,206**	$ 14.19

Currently outstanding options expire on various dates through August 2014. At December 31, 2009, 1,359,207 shares were available for additional stock option or restricted stock grants. The following is a summary of stock options outstanding and exercisable at December 31, 2009:

Stock Options Outstanding and Exercisable

Exercise Price Range	Number Outstanding and Exercisable	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
$ 1 - $ 8	295,106	1.09	$ 2.84
$ 8 - $13[(1)]	1,568,810	4.36	9.86
$13 - $16	415,750	0.36	13.47
$16 - $20[(1)]	1,892,540	3.70	19.71
	4,172,206	3.43	14.19

(1) These options were granted in 2009 and 2008 and are not exercisable as of December 31, 2009.

Options Granted

On May 07, 2009, the Company granted approximately 1.5 million nonstatutory stock options (under the W. R. Grace & Co. 2000 Stock Incentive Plan ("the Plan"). These grants are a component of a long term incentive plan. In the prior year, on September 11, 2008, the Company granted approximately 2 million nonstatutory stock options, which were part of a long term incentive plan and were the first of such options

granted since 2001.

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Notes to Consolidated Financial Statements (Continued)

18. Stock Incentive Plans (Continued)

For the years ended December 31, 2009 and 2008, Grace recognized non-cash stock-based compensation expense of $7.3 million and $1.6 million, respectively, which is included in selling, general and administrative expense. Grace values options using the Black-Scholes option-pricing model which was developed for use in estimating the fair value of traded options. The risk-free rate is based on the U.S. Treasury yield curve published as of the grant date, with maturities approximating the expected term of the options. The expected term of the options is estimated using the simplified method as allowed by ASC 718-20, whereby the average between the vesting period and contractual term is used. Grace believes this is an appropriate method because of the lack of historical option activity, as Grace believes its actual stock volatility in the last several years may not be representative of expected future volatility. Since Grace is operating under Chapter 11 of the Bankruptcy Code, the expected volatility was estimated using both actual stock volatility and the volatility of an industry peer group. The following summarizes the assumptions used for estimating the fair value of stock options granted during 2009 and 2008, respectively.

	2009	2008
Expected Volatility	42.5% - 49.2%	32.5% - 34.8%
Weighted Average Expected Volatility	45.9%	33.7%
Expected Term	3.00 - 4.00 years	3.23 - 3.73 years
Risk-Free Rate	1.81%	2.63%
Dividend Yield	0%	0%

The estimated future stock option compensation expense to be recorded in accordance with ASC 718-20 is $5.7 million for the current stock incentive plans.

19. Earnings Per Share

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

Earnings Per Share	2009	2008	2007
	(In millions, except per share amounts)		
Numerators			
Net income attributable to W. R Grace & Co. shareholders	**$ 71.2**	$ 121.5	$ 88.8
Denominators			
Weighted average common shares basic calculation	**72.2**	72.0	70.1
Dilutive effect of employee stock options	**0.4**	0.5	1.5
Weighted average common shares diluted calculation	**72.6**	72.5	71.6
Basic earnings per share	**$ 0.99**	$ 1.69	$ 1.27
Diluted earnings per share	**$ 0.98**	$ 1.68	$ 1.24

Stock options that could potentially dilute earnings per share (that were excluded from the computation of diluted earnings per share because their exercise prices were greater than the average market price of the common shares) were approximately 1.9 and 2.0 million for the years ended December 31, 2009 and 2008.

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Notes to Consolidated Financial Statements (Continued)

19. Earnings Per Share (Continued)

The average market price of Grace's common stock exceeded the exercise price of all outstanding stock options as of December 31, 2007. Therefore, there were no antidilutive options outstanding for 2007.

20. Product Line Sales and ART Transaction

Grace sold three product lines in 2009 resulting in a net gain of $29.1 million. The Grace Davison operating segment sold its membranes product line and the Grace Construction Products operating segment sold its firestopping and abatement and pipe corrosion protection product lines. These product lines accounted for substantially less than 1% of Grace Davison's and Grace Construction Products' annual sales, respectively.

On November 30, 2009, Grace completed the sale of a 5% interest in ART, its joint venture with Chevron. Grace reduced its 55% interest to 50% to achieve a balanced ownership structure with Chevron. Grace deconsolidated ART's results from its consolidated financial statements on a prospective basis effective December 1, 2009. Previously, Grace reported 100% of ART's sales and 55% of ART's income, with 45% of ART's income reported as income attributable to noncontrolling interests. Effective December 1, 2009, Grace is reporting its investment in ART and its portion of ART's income and dividends using the equity method of accounting. Grace recorded a gain of $4.8 million from the sale of its 5% interest in ART and the required revaluation of its remaining investment in ART.

21. Operating Segment Information

Grace is a global producer of specialty chemicals and specialty materials. It generates sales from two operating segments: Grace Davison, which includes specialty catalysts and specialty materials used in a wide range of refining, consumer, industrial, packaging and life sciences applications; and Grace Construction Products, which includes specialty construction chemicals and specialty building materials used in commercial, infrastructure, and residential construction. Intersegment sales, eliminated in consolidation, are not material. The table below presents information related to Grace's operating segments for the years ended December 31, 2009, 2008, and 2007, respectively. 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 defines Core EBIT (a non-U.S. GAAP financial measure) to be net income adjusted for interest income and expense, income taxes, Chapter 11 expenses, and pre-tax loss from noncore activities.

In the first quarter of 2009, Grace changed the manner in which it reviews the performance of its operating segments by excluding defined benefit pension expense from the calculation of segment operating income. Grace believes that the revised segment operating income measures provide a better indicator of our operating segment performance as defined benefit pension expense is not managed at a business segment level. Grace has retrospectively restated all prior period segment financial information to be consistent with the 2009 presentation.

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Notes to Consolidated Financial Statements (Continued)

21. Operating Segment Information (Continued)

Operating Segment Data

	2009	2008	2007
		(in millions)	
Net Sales			
Grace Davison	**$ 1,935.4**	$ 2,168.6	$ 2,009.2
Grace Construction Products	**889.6**	1,148.4	1,106.0
Total	**$ 2,825.0**	$ 3,317.0	$ 3,115.2
Core EBIT			
Grace Davison segment operating income	**$ 319.2**	$ 278.1	$ 269.7
Grace Construction Products segment operating income	**96.9**	148.3	155.9
Corporate costs	**(91.9)**	(81.1)	(82.9)
Defined benefit pension expense	**(68.9)**	(45.6)	(45.5)
Grace Core EBIT	**$ 255.3**	$ 299.7	$ 297.2
Depreciation and Amortization			
Grace Davison	**$ 77.4**	$ 81.0	$ 79.6
Grace Construction Products	**33.6**	35.7	31.6
Corporate	**2.0**	2.0	2.2
Total	**$ 113.0**	$ 118.7	$ 113.4
Capital Expenditures			
Grace Davison	**$ 68.2**	$ 88.8	$ 87.0
Grace Construction Products	**18.1**	35.8	38.2
Corporate	**7.5**	7.6	11.7
Total	**$ 93.8**	$ 132.2	$ 136.9
Total Assets			
Grace Davison	**$ 1,064.9**	$ 1,208.9	$ 1,232.8
Grace Construction Products	**476.0**	543.6	573.8
Corporate	**2,427.3**	2,123.0	2,101.8
Total	**$ 3,968.2**	$ 3,875.5	$ 3,908.4

For the year ended December 31, 2009 restructuring expenses and related asset impairments are included in the above operating segment results as follows: Grace Davison $12.1 million, Grace Construction Products $15.3 million and Corporate $5.0 million. An additional $1.0 million is reflected in pre-tax income (loss) from noncore activities. For the year ended December 31, 2008, restructuring expenses are included in the above operating segment results as follows: Grace Construction Products $4.7 million, and Corporate $0.5 million.

Corporate costs include expenses of corporate headquarters functions incurred in support of core operations, such as corporate finance, legal services, human resources management, communications and regulatory affairs and information technology as well as professional fees, insurance, and incentive compensation related to the corporate functions.

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Notes to Consolidated Financial Statements (Continued)

21. Operating Segment Information (Continued)

The following table presents information related to the geographic areas in which Grace operated for the years ended December 31, 2009, 2008 and 2007. Sales are attributed to geographic areas based on customer location.

Geographic Area Data

	2009	2008	2007
		(In millions)	
Net Sales			
United States	**$ 879.9**	$ 1,078.2	$ 1,020.7
Canada and Puerto Rico	**78.6**	101.5	94.2
Total North America	**958.5**	1,179.7	1,114.9
Europe Middle East Africa	**1,097.5**	1,320.1	1,295.7
Asia Pacific	**514.9**	582.9	502.5
Latin America	**254.1**	234.3	202.1
Total	**$ 2,825.0**	$ 3,317.0	$ 3,115.2
Properties and Equipment, net			
United States	**$ 403.2**	$ 420.8	$ 408.8
Canada and Puerto Rico	**19.5**	16.4	20.8
Total North America	**422.7**	437.2	429.6
Europe Middle East Africa	**205.8**	213.3	212.8
Asia Pacific	**45.3**	46.4	47.0
Latin America	**16.3**	13.7	16.7
Total	**$ 690.1**	$ 710.6	$ 706.1
Goodwill and Other Assets			
United States	**$ 100.5**	$ 131.3	$ 117.1
Canada and Puerto Rico	**7.3**	7.2	8.1
Total North America	**107.8**	138.5	125.2
Europe	**86.8**	92.4	98.7
Asia Pacific	**10.9**	12.8	13.7
Latin America	**18.1**	14.8	18.9
Total	**$ 223.6**	$ 258.5	$ 256.5

Grace Core EBIT for the years ended December 31, 2009, 2008 and 2007 is reconciled below to income before income taxes presented in the accompanying Consolidated Statements of Operations.

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Notes to Consolidated Financial Statements (Continued)

21. Operating Segment Information (Continued)

Reconciliation of Operating Segment Data to Financial Statements

	2009	2008	2007
		(In millions)	
Grace Core EBIT	**$ 255.3**	$ 299.7	$ 297.2
Pre-tax loss from noncore activities:			
Legal defense costs	**(36.0)**	(31.6)	(21.2)
Asbestos administration	**(7.9)**	(8.2)	(14.9)
Net pension costs divested businesses	**(16.7)**	(11.2)	(7.1)
Provision for environmental remediation	**(4.2)**	(14.6)	(17.0)
Translation effects intercompany loans	**11.0**	(6.9)	10.5
Value of currency forward contracts intercompany loans	**(15.9)**	10.7	(8.2)
Other noncore, net	**(18.0)**	4.1	(0.7)
Total pre-tax loss from noncore activities	**(87.7)**	(57.7)	(58.6)
Interest expense and related financing costs	**(38.3)**	(54.2)	(72.1)
Chapter 11 expenses, net of interest income	**(48.0)**	(65.8)	(86.4)
Net income attributable to noncontrolling interests	**10.0**	15.4	24.5
Interest income of non-Debtor subsidiaries	**1.4**	3.8	7.6
Income before income taxes	**$ 92.7**	$ 141.2	$ 112.2

22. 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 of these joint ventures are included in Grace's consolidated financial statements. The following tables present summary financial statistics for Grace's consolidated affiliates for which there is a noncontrolling interest:

		December 31,	
Statements of Operations	**2009**	**2008**	**2007**
		(In millions)	
Sales	**$ 346.9**	$ 460.5	$ 434.7
Income before taxes	**23.7**	36.7	55.9
Net income	**22.4**	34.2	48.7
Noncontrolling interests in net income	**10.0**	15.4	24.5

		December 31,	
Balance Sheets	**2009**	**2008**	**2007**
		(In millions)	
Cash	**$ 10.8**	$ 78.1	$ 57.0
Other current assets	**30.5**	153.3	162.4
Total assets	**52.8**	252.8	236.6
Total liabilities	**30.0**	84.1	74.5
Shareholders' equity	**22.8**	168.7	162.1
Noncontrolling interests in shareholders' equity	**8.7**	73.1	73.2

In the Statements of Operations above, noncontrolling interests primarily relates to ART, Grace's joint venture with Chevron. Sales for ART were $248.7 for the eleven months ended November 30, 2009 and $348.7 and $335.7 for the years ended December 31, 2008 and 2007, respectively. In the

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Notes to Consolidated Financial Statements (Continued)

22. Noncontrolling Interests in Consolidated Affiliates (Continued)

Balance Sheets above, ART balances are not included in the amounts as of December 31, 2009 as ART was deconsolidated from Grace as of December 1, 2009; however, the amounts in 2008 and 2007 include ART balances. See Note 23 for additional discussion relating to ART.

23. Unconsolidated Affiliates

Grace accounts for certain of its investments in unconsolidated affiliates using the equity method of accounting. Of the $45.7 million balance at December 31, 2009, $44.8 million represents the value of Grace's 50% interest in ART. On November 30, 2009, Grace sold 5% of its ownership interest in ART to Chevron for $4.0 million (the "ART Transaction"), bringing both Grace's and Chevron's ownership interests to 50%. From its inception in 2001 to the date of the ART Transaction, Grace held a 55% interest in ART, and Chevron held a 45% interest. As of December 31, 2008 and for the nine months ended September 30, 2009 and years ended December 31, 2008 and 2007, Grace consolidated the financial position, results of operations, and cash flows of ART in its consolidated financial statements. Due to the ART Transaction, Grace reconsidered its consolidation policy with respect to ART, and determined, following the ART Transaction on November 30, 2009, that ART ceased to be a variable interest entity. Grace does not have a controlling voting interest; therefore, Grace deconsolidated ART and recorded its investment in ART using the equity method of accounting as of December 1, 2009, resulting in a gain of $4.8 million, of which $4.6 million is attributable to the required remeasurement to fair value of Grace's retained investment in ART. The gain of $4.8 million is presented in "Gains (loss) on sales of product lines and gain on the sale of interest in an unconsolidated affiliate."

Grace and ART continue to transact business on a regular basis, and maintain the following agreements in order to effect such business:

Supply and Services Agreement

Grace manufactures and sells hydroprocessing catalysts to ART. Grace sales to ART for the eleven months ended November 30, 2009, and for the years ended December 31, 2008 and 2007 were eliminated in consolidation, and ART's sales to its customers for the same time periods were consolidated in Grace's results. For the month ended December 31, 2009, Grace sales to ART were $10.0 million. Sales to ART are accounted for on a net basis in cost of goods sold in Grace's Consolidated Statement of Operations. Grace also receives reimbursement from ART for factory administration and depreciation required to operate the plants making the hydroprocessing catalysts. Reimbursements in December 2009 were $1.3 million.

Operational Support Agreements

Grace provides ART with research and development, sales and marketing and general and administrative services. Grace's reimbursement was $1.0 million for services provided to ART during the month ended December 31, 2009.

Purchase Agreement

Grace acts as non-exclusive distributor of hydroprocessing catalysts for ART for certain customers in Europe. Under this arrangement, Grace purchases hydroprocessing catalysts from

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Notes to Consolidated Financial Statements (Continued)

23. Unconsolidated Affiliates (Continued)

ART and sells to the customers. For the month ended December 31, 2009, Grace purchased $2.0 million under this agreement.

Lease Agreement

On October 13, 2009, Grace entered into a lease agreement with ART whereby Grace acquired the right to use ART manufacturing assets installed at a Grace manufacturing plant to manufacture hydroprocessing catalysts to be sold to ART. Grace acquired the right to use the equipment for a nominal amount. This lease expires December 31, 2017 and is renewable thereafter for successive one year periods. The lease may be terminated at any time upon written notice of at least 60 days.

Finance Arrangements

Line of Credit

Grace and Chevron provide lines of credit in the amount of $20.3 million each at a commitment fee of 0.1% of the credit amount. These agreements expire on March 1, 2010 and will be renewed in the amount of $15.0 million, each. No amounts were outstanding at December 31, 2009.

Maintenance Capital Loans

ART loaned Grace $12.2 million to fund capital expenditures incurred in 2007 through 2009 for manufacturing facilities used to produce catalysts for ART. Principal and interest on the loans are paid monthly. The loans have repayment terms up to eight years, unless earlier repayment is demanded by ART. The loans bear interest at LIBOR plus 1.25%. As of December 31, 2009, $12.3 million of loans were outstanding at an average interest rate of 1.5%.

Dividends

In November 2009, ART declared a dividend of $19.0 million, of which $10.5 million was payable to Grace. This amount is reflected in "Trade accounts receivable" in the Consolidated Balance Sheet. In addition ART paid dividends of $35.6 million, $16.3 million, and $13.2 million to Grace and $30.2 million, $13.3 million, and $11.8 million to Chevron in 2009, 2008, and 2007, respectively.

Grace balances related to ART	**2009**	**2008**
	(In millions)	
Trade accounts receivable	**$ 17.9**	$
Debt payable within one year	**$ (1.8)**	$
Accounts payable	**$ (4.1)**	$
Debt payable after one year	**$ (10.5)**	$

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Notes to Consolidated Financial Statements (Continued)

24. Quarterly Summary and Statistical Information (Unaudited)

Quarterly Summary and Statistical Information *(Unaudited)*

	March 31	June 30	September 30	December 31
			(In millions)	
2009				
Net sales	$ 682.1	$ 711.0	$ 753.6	$ 678.3
Cost of goods sold	511.6	467.8	491.1	430.1
Net income	(38.9)	19.3	44.4	46.4
Net income per share:[1]				
Basic earnings per share:				
Net income	$ (0.54)	$ 0.27	$ 0.61	$ 0.64
Diluted earnings per share:				
Net income	(0.54)	0.26	0.61	0.63
Market price of common stock:[2]				
High	$ 7.08	$ 14.31	$ 22.68	$ 26.17
Low	4.07	6.71	11.04	20.76
Close	6.32	12.37	21.74	25.35

	March 31	June 30	September 30	December 31
			(In millions)	
2008				
Net sales	$ 759.2	$ 900.0	$ 889.4	$ 768.4
Cost of goods sold	521.3	621.9	630.8	559.5
Net income	17.7	32.1	28.3	43.4
Net income per share:[1]				
Basic earnings per share:				
Net income	$ 0.25	$ 0.45	$ 0.39	$ 0.60
Diluted earnings per share:				
Net income	0.24	0.44	0.39	0.60
Market price of common stock:[2]				
High	$ 25.10	$ 27.79	$ 26.75	$ 14.33
Low	16.50	23.44	13.75	3.01
Close	22.82	23.49	15.12	5.97

(1) Per share results for the four quarters may differ from full-year per share results, as a separate computation of the weighted average number of shares outstanding is made for each quarter presented.

(2) Principal market: New York Stock Exchange.

SELECTED FINANCIAL DATA[1]

	2009	2008	2007	2006	2005
	(In millions, except per share amounts)				
Statement of Operations					
Net sales	**$ 2,825.0**	$ 3,317.0	$ 3,115.2	$ 2,826.5	$ 2,569.5
Income before income taxes	**92.7**	141.2	112.2	37.8	125.1
Net income	**81.2**	136.9	113.3	35.0	99.1
Net income attributable to noncontrolling interests	**(10.0)**	(15.4)	(24.5)	(26.4)	(23.1)
Net income attributable to W.R. Grace & Co. shareholders	**71.2**	121.5	88.8	8.6	76.0
Financial Position					
Cash and cash equivalents	**$ 893.0**	$ 460.1	$ 480.5	$ 536.3	$ 474.7
Properties and equipment, net	**690.1**	710.6	706.1	664.5	632.9
Total assets	**3,968.2**	3,875.5	3,908.4	3,662.0	3,580.8
Total liabilities	**4,258.7**	4,229.3	4,184.7	4,122.2	4,097.5
Liabilities subject to compromise (a subset of total liabilities)	**3,147.1**	3,112.9	3,277.5	3,221.6	3,155.1
Shareholders' equity (deficit)	**(290.5)**	(353.8)	(276.4)	(460.2)	(516.7)
Cash Flow					
Operating activities	**$ 432.4**	$ 15.0	$ 100.2	$ 159.4	$ 67.7
Investing activities	**27.1**	(31.1)	(206.9)	(129.4)	(77.9)
Financing activities	**(41.3)**	0.6	33.7	15.2	(10.5)
Net cash flow	**432.9**	(20.4)	(55.8)	61.6	(35.7)
Data Per Common Share (Diluted)					
Net income (loss)	**$ 0.98**	$ 1.68	$ 1.24	$ 0.13	$ 1.13
Average common diluted shares outstanding (millions)	**72.6**	72.5	71.6	68.3	67.3
Other Statistics					
Capital expenditures	**$ 93.8**	$ 132.2	$ 136.9	$ 119.2	$ 94.0
Common stock price range	**$ 4.07-26.17**	$ 3.01-27.79	$ 18.86-30.65	$ 8.12-20.35	$ 6.75-13.79
Common shareholders of record	**8,505**	8,801	9,153	9,522	9,883
Number of employees (approximately)	**5,900**	6,300	6,500	6,500	6,400

(1) Certain prior-year amounts have been reclassified to conform to the 2009 presentation.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2009 Financial Summary

Following is a summary of our financial performance for the year ended December 31, 2009 compared with the prior year.

Grace

Sales for the year ended December 31, 2009 were $2,825.0 million compared with $3,317.0 million for the prior year, a 14.8% decrease. The sales decrease was due to lower sales volumes (10.2%), unfavorable currency translation (3.7%), lower cost of metals passed through to customers (3.1%), and the deconsolidation of the ART joint venture (1.2%), partly offset by price increases (3.4%).

Gross profit percentage for the year was 32.7% compared with 29.7% in the prior year. The improvement in gross profit percentage was due to price increases primarily implemented in the second half of 2008, a decrease in raw materials and energy costs since their peak in the fourth quarter of 2008, and lower factory overhead expenses resulting primarily from restructuring activities.

Core EBIT for the year was $255.3 million, down 14.8% from the prior year, primarily due to lower sales volumes, restructuring expenses, unfavorable currency translation, and higher pension expenses, partly offset by an increase in gross profit percentage, gains related to three product line sales and the ART transaction, and lower selling, general and administrative expenses. Core EBIT margin was 9.0%, equal to the prior year level.

Grace net income for the year ended December 31, 2009 was $71.2 million, or $0.98 per diluted share, compared with Grace net income of $121.5 million, or $1.68 per diluted share, for the prior year.

Adjusted Operating Cash Flow was $446.5 million for the year ended December 31, 2009, compared with $389.5 million in the prior year, a 14.6% increase. The increase in Adjusted Operating Cash Flow was primarily due to improvements in working capital and lower capital expenditures, partially offset by the impact of lower Core EBIT. Net working capital decreased by 27 days during 2009, including a reduction of 13 days of inventory and an increase of 13 days of accounts payable.

Core EBIT return on invested capital increased to 22.3% from 22.1% in the prior year.

Operating Segments

Sales of the Grace Davison operating segment for the year ended December 31, 2009 were $1,935.4 million, down 10.8% compared with the prior year. Segment operating income for the year ending December 31, 2009 was $331.3 million, a 19.1% increase compared with the prior year. Segment operating margin was 17.1% compared with 12.8% for the prior year. These results reflect the favorable effects of price increases, lower raw materials and energy costs, gains related to the sale of a product line and the ART transaction, and lower operating expenses, partly offset by the unfavorable effects of lower sales volume, the sale in the first quarter of 2009 of high-cost inventories produced in the fourth quarter of 2008, and currency translation.

Sales of the Grace Construction Products operating segment for the year ended December 31, 2009 were $889.6 million, down 22.5% compared with the prior year. Segment operating income for the year ended December 31, 2009 was $106.4 million compared with

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$148.3 million for the prior year, a 28.3% decrease. Segment operating margin was 12.0% compared with 12.9% for the prior year, reflecting continued weakness in the global construction market. These results include the gains on the sale of two product lines in 2009 and the restructuring following the sale of the pipe wrap product line.

Corporate costs related to core operations were $86.9 million for the year ended December 31, 2009, compared with $80.6 million in the prior year, an increase of 7.8%. Corporate support function costs decreased 7.3% from the prior year due primarily to savings from the restructuring actions completed in 2009 and other cost reduction efforts. Performance related compensation and other corporate costs increased primarily due to higher incentive compensation expenses and higher legal costs.

Cash Flow and Liquidity

Net cash provided by operating activities for the year ended December 31, 2009 was $432.5 million compared with $15.0 million for the prior year. Net cash provided by operating activities in the prior year included a payment of $252 million related to the settlement of certain environmental claims relating to our former vermiculite operations in Libby, Montana. Capital expenditures for the year ended December 31, 2009 were $93.8 million compared with $132.2 million for the prior year. Available liquidity excludes our debtor in possession credit facility which we are terminating.

At December 31, 2009, we had available liquidity of approximately $954.6 million, consisting of $893.0 million in cash and cash equivalents and $61.6 million of available credit under various non-U.S. credit facilities.

Summary Description of Core Business

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through our two operating segments, Grace Davison and Grace Construction Products. See Item 1 (Business Business Overview) of this Report for a summary description of our core business.

Analysis of Core Operations

Set forth in the table below are our key operating statistics with dollar and percentage changes for the years ended December 31, 2009, 2008, and 2007. Please refer to this Analysis of Core Operations when reviewing this Management's Discussion and Analysis of Financial Condition and Results of Operations.

In the Analysis of Core Operations table, as well as in the financial information presented throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, we present our financial results in the same manner as we present them for internal review. We review our results of operations by operating segment and separate "core operations" from "noncore activities." Core operations include the financial results of our Grace Davison and Grace Construction Products operating segments and the costs of corporate activities that directly or indirectly support our business operations. In contrast, noncore activities include all other events and transactions not directly related to the generation of operating revenue or the support of our core operations and generally relate to our former operations and products. See "Pre-tax Loss from Noncore Activities" for more information about noncore activities.

We define Core EBIT (a non-U.S. GAAP financial measure) to be net income adjusted for interest income and expense, income taxes, Chapter 11 expenses, and pre-tax loss from noncore activities.

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We define Adjusted Operating Cash Flow (a non-U.S. GAAP financial measure) to be Core EBIT before depreciation and amortization, which we refer to as Core EBITDA, plus pension expense of core operations plus or minus the change in net working capital and specified other assets and liabilities of our core operations minus capital expenditures as set forth in the table below. Adjusted Operating Cash Flow excludes income taxes paid (net of refunds), payments under defined benefit pension arrangements and post retirement benefit plans, cash paid for Chapter 11 expenses and contingencies, and cash paid for other noncore activities.

We define Core EBIT Return On Invested Capital to be Core EBIT divided by the sum of net working capital, properties and equipment and certain other assets and liabilities.

We use Core EBIT, Adjusted Operating Cash Flow and Core EBIT Return On Invested Capital as performance measures in significant business decisions and, in the case of Core EBIT and Adjusted Operating Cash Flow, in determining certain incentive compensation. Core EBIT, Core EBIT as a percentage of sales, Core EBITDA, pre-tax loss from noncore activities, net income excluding noncore activities and Chapter 11 expenses, Adjusted Operating Cash Flow and Core EBIT Return on Invested Capital do not purport to represent income or cash flow measures as defined under U.S. GAAP, and you should not consider them an alternative to such measures as an indicator of our performance. We provide these measures so you can distinguish the operating results of our current business base from the income and expenses and cash flows of our past businesses, discontinued products, and corporate legacies, and the effect of our Chapter 11 proceedings, and to ensure that you understand the key data that we use to evaluate our results of operations. We have also provided in the following tables a reconciliation of these non-U.S. GAAP measures to its most directly comparable financial measure or measures calculated and presented in accordance with U.S. GAAP.

Core EBIT has material limitations as an operating performance measure because it excludes income and expenses that comprise our noncore activities, which include, among other things, provisions for asbestos-related litigation and environmental remediation and legal costs, which are and historically have been material components of our net income. Additionally, Core EBITDA also has material limitations as an operating performance measure since it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of our capital assets; therefore, depreciation and amortization expense is a necessary element of our costs and ability to generate revenue. Adjusted Operating Cash Flow also has material limitations as an operating performance measure because it excludes cash paid for income taxes, cash payments under defined benefit pension arrangements and post retirement benefit plans, and cash flows from our noncore activities, including, among other things, costs for asbestos-related litigation and environmental remediation and legal defense costs, and costs related to our Chapter 11 proceedings, which have been material. 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. You should evaluate Core EBIT, Core

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EBITDA, and Adjusted Operating Cash Flow in conjunction with net income for a more complete analysis of our financial results.

Analysis of Core Operations	**2009**	**2008**	**$ Change Fav (Unfav)**	**% Change Fav (Unfav)**	**2007**	**$ Change Fav (Unfav)**	**% Change Fav (Unfav)**
			(In millions)				
Net sales:							
Grace Davison	**$ 1,935.4**	$ 2,168.6	$ (233.2)	(10.8)%	$ 2,009.2	$ 159.4	7.9%
Refining Technologies	**992.1**	1,099.1	(107.0)	(9.7)%	971.1	128.0	13.2%
Materials Technologies	**606.0**	694.8	(88.8)	(12.8)%	663.5	31.3	4.7%
Specialty Technologies	**337.3**	374.7	(37.4)	(10.0)%	374.6	0.1	0.0%
Grace Construction Products	**889.6**	1,148.4	$ (258.8)	(22.5)%	1,106.0	42.4	3.8%
Americas	**458.4**	595.0	(136.6)	(23.0)%	587.1	7.9	1.3%
Europe	**296.6**	407.1	(110.5)	(27.1)%	380.6	26.5	7.0%
Asia	**134.6**	146.3	(11.7)	(8.0)%	138.3	8.0	5.8%
Total Grace net sales	**$ 2,825.0**	$ 3,317.0	$ (492.0)	(14.8)%	$ 3,115.2	$ 201.8	6.5%
Net sales by region:							
North America	**$ 958.5**	$ 1,179.7	$ (221.2)	(18.8)%	$ 1,114.9	$ 64.8	5.8%
Europe Middle East Africa	**1,097.5**	1,320.1	(222.6)	(16.9)%	1,295.7	24.4	1.9%
Asia Pacific	**514.9**	582.9	(68.0)	(11.7)%	502.5	80.4	16.0%
Latin America	**254.1**	234.3	19.8	8.5%	202.1	32.2	15.9%
Total net sales by region	**$ 2,825.0**	$ 3,317.0	$ (492.0)	(14.8)%	$ 3,115.2	$ 201.8	6.5%
Core EBIT(A)(B):							
Grace Davison segment operating income	**$ 331.3**	$ 278.1	$ 53.2	19.1%	$ 269.7	$ 8.4	3.1%
Grace Construction Products segment operating income	**106.4**	148.3	(41.9)	(28.3)%	155.9	(7.6)	(4.9)%
Corporate costs:							
Support functions	**(44.2)**	(47.7)	3.5	7.3%	(46.8)	(0.9)	(1.9)%
Performance-related compensation and other	**(42.7)**	(32.9)	(9.8)	(29.8)%	(36.1)	3.2	8.9%
Corporate costs	**(86.9)**	(80.6)	(6.3)	(7.8)%	(82.9)	2.3	2.8%
Corporate restructuring expenses(C)	**(26.6)**	(0.5)	(26.1)	NM		(0.5)	NM
Defined benefit pension expense	**(68.9)**	(45.6)	(23.3)	(51.1)%	(45.5)	(0.1)	(0.2)%

Core EBIT	**255.3**	299.7	(44.4)	(14.8)%	297.2	2.5	0.8%
Pre-tax loss from noncore activities(C)(D)	**(87.7)**	(57.7)	(30.0)	(52.0)%	(58.6)	0.9	1.5%
Interest expense	**(38.3)**	(54.2)	15.9	29.3%	(72.1)	17.9	24.8%
Interest income of non-Debtor subsidiaries	**1.4**	3.8	(2.4)	(63.2)%	7.6	(3.8)	(50.0)%
Chapter 11 expenses, net of interest income	**(48.0)**	(65.8)	17.8	27.1%	(86.4)	20.6	23.8%
Benefit from (provision for) income taxes	**(11.5)**	(4.3)	(7.2)	(167.4)%	1.1	(5.4)	NM
Net income attributable to W. R. Grace & Co. shareholders	**$ 71.2**	$ 121.5	$ (50.3)	(41.4)%	$ 88.8	$ 32.7	36.8%

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Analysis of Core Operations	2009	2008	$ Change Fav (Unfav)	% Change Fav (Unfav)	2007	$ Change Fav (Unfav)	% Change Fav (Unfav)
				(In millions)			
Key financial measures:							
Gross profit percentage:							
Grace Davison	**31.4%**	27.3%	NM	4.1pts	29.3%	NM	(2.0)pts
Grace Construction Products	**36.0%**	34.5%	NM	1.5pts	36.2%	NM	(1.7)pts
Total Grace	**32.7%**	29.7%	NM	3.0pts	31.7%	NM	(2.0)pts
Operating margin as a percentage of sales(A)(B):							
Grace Davison	**17.1%**	12.8%	NM	4.3pts	13.4%	NM	(0.6)pts
Grace Construction Products	**12.0%**	12.9%	NM	(0.9)pts	14.1%	NM	(1.2)pts
Core EBIT	**9.0%**	9.0%	NM	pts	9.5%	NM	(0.5)pts
Core EBITDA	**13.0%**	12.6%	NM	0.4pts	13.2%	NM	(0.6)pts

Analysis of Core Operations	2009	2008	$ Change Fav (Unfav)	% Change Fav (Unfav)	2007	$ Change Fav (Unfav)	% Change Fav (Unfav)
				(In millions)			
Reconciliation of net income attributable to W. R. Grace & Co. shareholders to net income excluding noncore activities and Chapter 11 expenses, net:							
Net income attributable to W. R. Grace & Co. shareholders	**$ 71.2**	$ 121.5	$ (50.3)	(41.4)%	$ 88.8	$ 32.7	36.8%
Pre-tax loss from noncore activities	**87.7**	57.7	30.0	52.0%	58.6	(0.9)	(1.5)%
Chapter 11 expenses, net	**48.0**	65.8	(17.8)	(27.1)%	86.4	(20.6)	(23.8)%
Tax effects of noncore and Chapter 11 items	**(55.1)**	(72.5)	17.4	24.0%	(82.5)	(10.0)	12.1%
Net income excluding noncore activities and Chapter 11 expenses, net	**$ 151.8**	$ 172.5	$ (20.7)	(12.0)%	$ 151.3	$ 21.2	14.0%

Analysis of Core Operations	2009	2008	$ Change Fav (Unfav)	% Change Fav (Unfav)	2007	$ Change Fav (Unfav)	% Change Fav (Unfav)
				(In millions)			
Reconciliation of net income attributable to W. R. Grace & Co. shareholders to Adjusted Operating Cash Flow:							
Net income attributable to W. R. Grace & Co. shareholders	**$ 71.2**	$ 121.5	$ (50.3)	(41.4)%	$ 88.8	$ 32.7	36.8%

(Benefit from) provision for income taxes	**11.5**	4.3	7.2	167.4%	(1.1)	5.4	NM
Chapter 11 expenses, net of interest income	**48.0**	65.8	(17.8)	(27.1)%	86.4	(20.6)	(23.8)%
Interest income of non-Debtor subsidiaries	**(1.4)**	(3.8)	2.4	63.2%	(7.6)	3.8	50.0%
Interest expense	**38.3**	54.2	(15.9)	(29.3)%	72.1	(17.9)	(24.8)%
Pre-tax loss from noncore activities	**87.7**	57.7	30.0	52.0%	58.6	(0.9)	(1.5)%
Core EBIT	**255.3**	299.7	(44.4)	(14.8)%	297.2	2.5	0.8%
Depreciation and amortization	**113.0**	118.7	(5.7)	(4.8)%	113.4	5.3	4.7%
Core EBITDA	**368.3**	418.4	(50.1)	(12.0)%	410.6	7.8	1.9%
Defined benefit pension expense(B)	**68.9**	45.6	23.3	51.1%	45.5	0.1	0.2%
Change in net working capital of core operations	**181.5**	78.1	103.4	132.4%	(82.0)	160.1	195.2%
Change in other assets and liabilities of core operations	**(78.4)**	(20.4)	(58.0)	NM	5.9	(26.3)	NM
Capital expenditures	**(93.8)**	(132.2)	38.4	29.0%	(136.9)	4.7	3.4%
Adjusted Operating Cash Flow	**$ 446.5**	$ 389.5	$ 57.0	14.6%	$ 243.1	$ 146.4	60.2%

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Analysis of Core EBIT return on invested capital	2009	2008	2007
		(In millions)	
Core EBIT	**$ 255.3**	$ 299.7	$ 297.2
Invested capital:			
Trade accounts receivable	**383.7**	462.6	500.6
Inventories	**220.6**	354.8	362.9
Accounts payable	**(174.2)**	(207.6)	(171.9)
	430.1	609.8	691.6
Other current assets	**69.9**	86.1	80.8
Other current liabilities	**(307.9)**	(314.3)	(344.5)
Properties and equipment, net	**690.1**	710.6	706.1
Goodwill	**118.6**	117.1	122.3
Investments in unconsolidated affiliates	**45.7**	7.9	6.3
Other assets	**100.6**	137.2	130.3
Total invested capital[(E)]	**$ 1,147.1**	$ 1,354.4	$ 1,392.9
Core EBIT return on invested capital	**22.3%**	22.1%	21.3%

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

Note (B): Defined benefit pension expense includes all defined benefit pension expense of core operations. Grace Davison and Grace Construction Products segment operating income and corporate costs do not include amounts for defined benefit pension expense.

Note (C): Corporate restructuring expenses included in Core EBIT above have been reflected by operating segment in Note 21 as follows: For the year ended December 31, 2009, Grace Davison $12.1 million, Grace Construction Products $9.5 million, and Corporate $5.0 million. For the year ended December 31, 2008, Corporate $0.5 million. An additional $1.0 million, reflected in pre-tax income (loss) from noncore activities above, is also reflected in Corporate.

Note (D): See "Pre-tax loss from Noncore Activities" below for a definition and analysis of our noncore activities.

Note (E): Total invested capital excludes the cash value of life insurance policies, net of policy loans of $4.4 million in other assets in 2009, $67.2 million in current assets in 2008, and $4.2 million in other assets in 2008.

NM Not Meaningful

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Results of Operations

Grace Overview

Following is an overview of our financial performance for the years ended December 31, 2009, 2008, and 2007.

Net Sales

Grace Net Sales
($ in millions)

The following table identifies the year-over-year increase or decrease in sales attributable to changes in sales volume, product price and/or mix, the impact of currency translation, and metals volumes and prices.

	2009 as a Percentage Increase (Decrease) from 2008				
Net Sales Variance Analysis	**Volume**	**Price/Mix**	**Currency Translation**	**Metals**	**Total**
Grace Davison	(5.9)%	3.4%	(3.5)%	(4.8)%	(10.8)%
Grace Construction Products	(20.2)%	2.0%	(4.3)%	N/A	(22.5)%
Net sales	(10.9)%	3.0%	(3.8)%	(3.1)%	(14.8)%
By Region:					
North America	(18.2)%	3.1%	(0.4)%	(3.3)%	(18.8)%
Europe Middle East Africa	(10.6)%	1.9%	(6.7)%	(1.5)%	(16.9)%
Asia Pacific	(3.6)%	1.2%	(1.7)%	(7.6)%	(11.7)%
Latin America	6.4%	11.5%	(9.1)%	(0.3)%	8.5%

Sales for 2009 were unfavorably affected by reduced sales volumes resulting from the continuing global economic slowdown, currency translation and lower cost of metals passed through to customers. These unfavorable effects were partly offset by higher selling prices resulting from pricing actions that we primarily implemented in the second half of 2008 in all product groups and in all regions in response to rising raw materials and energy costs and to reflect our upgrade of product

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technologies. The 10.8% decrease for Grace Davison includes a 1.8% decrease for the deconsolidation of ART.

	2008 as a Percentage Increase (Decrease) from 2007				
Net Sales Variance Analysis	**Volume**	**Price/Mix**	**Currency Translation**	**Metals**	**Total**
Grace Davison	(0.6)%	5.4%	3.3%	(0.2)%	7.9%
Grace Construction Products	(1.8)%	3.4%	2.2%	N/A	3.8%
Net sales	(1.0)%	4.6%	3.0%	(0.1)%	6.5%
By Region:					
North America	(1.9)%	6.6%	0.2%	0.9%	5.8%
Europe Middle East Africa	(4.4)%	2.6%	5.9%	(2.2)%	1.9%
Asia Pacific	6.9%	4.3%	1.5%	3.3%	16.0%
Latin America	5.9%	7.8%	3.2%	(1.0)%	15.9%

For 2008, the positive effects of the pricing actions and currency translation were partially offset by lower sales volumes in both operating segments.

Core EBIT

Grace
Core EBIT
($ in millions)

Core EBIT increased $2.5 million or 0.8% in 2008 over 2007 and then decreased $44.4 million or 14.8% in 2009.

The decrease in 2009 Core EBIT was primarily due to lower sales volumes, currency translation and higher pension expenses, partly offset by an increase in gross profit percentage and lower selling, general and administrative expenses. Restructuring expenses and related asset impairments of $32.4 million were offset by gains related to three product line sales and the ART transaction of $33.9 million. The 3.0 percentage point improvement in gross profit percentage is due to price increases implemented primarily in the second half of 2008, a decrease in raw materials and energy costs since their peak in the fourth quarter of 2008, and lower factory overhead expenses resulting primarily from restructuring activities. The decline in raw materials and energy costs that we have experienced since late 2008 abated during the third quarter, and we experienced increasing costs for certain raw materials during the fourth quarter though raw materials and energy costs remained below prior year levels.

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In the year ended December 31, 2009, we recognized $32.4 million of restructuring expenses and related asset impairments related to cost reduction and restructuring programs implemented in our core operations, and $1.0 million of restructuring expenses related to our noncore activities. Of these amounts, $26.6 million relates to corporate-initiated programs and is included in corporate restructuring expenses in the analysis of core operations, and $5.8 million relates to programs initiated by an operating segment and is included in segment operating income. The 2009 restructuring actions, together with actions completed in 2008, produced over $50 million of cost savings in the year ended December 31, 2009, of which over $35 million were realized in operating expenses.

We have contracted with IBM to manage a portion of our information technology activities with the goals of improving the scalability of our IT resources and accelerating the implementation of innovations that improve productivity. We recorded planned transition costs of $2.5 million related to this contract in selling, general and administrative expenses in 2009.

The increase in Core EBIT in 2008 was primarily due to selling price increases, totaling approximately $150 million for 2008, and productivity improvements which offset the unfavorable effects of raw materials cost inflation, totaling approximately $160 million for 2008. Cost containment actions that we implemented in the operating segments and the corporate functional areas mitigated the negative effect of lower volumes on 2008 Core EBIT.

Core EBIT margin was 9.0% for 2009, equal to the 2008 level. Core EBIT margin decreased from 9.5% in 2007 primarily due to lower sales volumes.

Adjusted Operating Cash Flow

Adjusted Operating Cash Flow
($ in millions)

Adjusted operating cash flow increased $57.0 million for the year ended December 31, 2009 as compared to the prior year primarily due to improvements in net working capital and lower capital expenditures, partially offset by a decrease in Core EBIT. Net working capital days decreased by 27 days during 2009, including a reduction of 13 days of inventory and an increase of 13 days of accounts payable. Adjusted operating cash flow increased $146.4 million for the year ended December 31, 2008, as compared to the prior year primarily due to improvements in net working capital.

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Core EBIT Return On Invested Capital

Core EBIT Return on Invested Capital

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 Core 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

Operating Segment Overview Grace Davison

Following is an overview of the financial performance of Grace Davison for the three years ended December 31, 2009, 2008, and 2007.

Net Sales Grace Davison

Grace Davison Net Sales
($ in millions)

Grace Davison operating segment sales are reported in the following product groups:

	2009 Sales	2009 vs. 2008	2008 Sales	2008 vs. 2007	2007 Sales
	(In millions)				
Refining Technologies	$ 992.1	(9.7)%	$ 1,099.1	13.2%	$ 971.1
Materials Technologies	606.0	(12.8)%	694.8	4.7%	663.5
Specialty Technologies	337.3	(10.0)%	374.7	0.0%	374.6

Total Grace Davison Sales	**$**	**1,935.4**	**(10.8)%**	**$**	**2,168.6**	**7.9%**	**$**	**2,009.2**

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Sales of Grace Davison for 2009 were unfavorably affected by the global economic slowdown which resulted in reduced sales volumes, by lower cost of metals passed through to customers, and by unfavorable currency translation partly offset by higher selling prices. As the global economy grew in 2007 and through most of 2008, costs for raw materials and energy used to produce our products increased significantly, especially in the second half of 2008. We raised prices, primarily in the second half of 2008, to offset these increased costs and to reflect our upgrade of product technologies.

On September 30, 2009, we sold our membranes product line, a component of Grace Davison's Specialty Technologies product group, to a strategic buyer for approximately $22 million and recorded a $19.2 million gain on the sale. The membranes product line manufactured and sold polymer-based membranes used in natural gas separation.

On November 30, 2009, we completed the sale of a 5% interest in ART, our joint venture with Chevron Products Company. We reduced our 55% interest to 50% to achieve a balanced ownership structure with Chevron. We deconsolidated ART's results from our consolidated financial statements on a prospective basis effective December 1, 2009. Previously, we reported 100% of ART's sales and 55% of ART's income, with 45% of ART's income reported as income attributable to noncontrolling interests. Effective December 1, 2009, we are reporting our investment in ART and our portion of ART's income and dividends using the equity method of accounting. We recorded a gain of $4.8 million from the sale of our 5% interest in ART and the required revaluation of our remaining investment in ART.

Refining Technologies The decrease in sales for 2009 was primarily due to a decrease in the cost of molybdenum passed through to hydroprocessing customers, decreased sales volume of FCC catalysts and additives, the deconsolidation of the ART joint venture and unfavorable currency translation partly offset by the effect of price increases implemented mainly in 2008 and primarily in FCC catalysts. The global economy slowed significantly beginning in the fourth quarter of 2008 reducing demand for transportation fuels and negatively affecting sales volume of our FCC catalysts and additives in 2009.

Molybdenum is a key raw material in our hydroprocessing catalysts and we generally pass the cost of molybdenum through to our customers. Molybdenum costs in 2009 were approximately one-third of molybdenum costs in 2008, resulting in a decrease in pass-through sales of approximately $114 million.

The increase in sales for 2008 was primarily due to increased volumes of our FCC catalysts and additives resulting from the strong global economy in the first nine months of 2008 and the related strong demand for our customers' transportation fuel products. During 2007 and 2008, refinery FCC units ran at high capacity utilization rates, and new refining capacity came on line in the Middle East and Asia. As the price of crude oil increased, refineries processed heavier, lower quality and less expensive feedstocks, which further increased demand for our catalysts and additives, especially our Midas® catalyst series. In addition, refiners' product mix shifted toward increased diesel production, which increased sales of our Midas® catalysts, as well as our hydroprocessing catalysts. The 2008 sales increase also reflects the effect of the 2008 price increases and favorable currency translation.

Materials Technologies The decrease in sales for 2009 was primarily caused by a decline in sales volume reflecting reduced demand for our products caused by continued weakness in the global economy, and unfavorable currency translation. Sales for 2009 were also negatively affected by our customers' efforts to reduce inventory levels. The weakness in automotive and furniture sales, residential and commercial construction, and home renovations lowered the sales volumes of our products sold into end-uses such as lacquers, coatings, automotive tires, and dual pane windows. Sales volumes of our products sold into food and personal care end-uses also decreased but to a

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lesser extent. Sales for 2009 were favorably affected by price increases implemented primarily in the second half of 2008 and a 2008 change in our product mix designed to emphasize higher value applications.

Sales for 2008 reflect growth in existing markets, expansion in emerging markets and solid demand for our products in the housing/building, automotive and food/personal care industries through the first nine months of 2008 as partly offset by a decrease in sales for the fourth quarter of 2008. Sales volumes for the 2008 fourth quarter were down by more than 11% from the 2007 fourth quarter reflecting the effects of the global economic slowdown. Although consumer markets remained relatively stable in 2008, the automotive and building industries slowed significantly.

Specialty Technologies The decrease in sales for 2009 was primarily due to unfavorable currency translation, a decline in sales volume and a decrease in the cost of nickel passed through to our Raney® catalyst customers, partially offset by price increases implemented primarily in the second half of 2008 and new product launches. Many of our customers produce polyolefin resin used in the manufacture of plastic materials, including high performance pipes, plastic films and household containers. Polyolefin production decreased significantly in the fourth quarter of 2008 through the first half of 2009 resulting in decreased sales volume of our products. As demand for plastics recovered during the third and fourth quarters of 2009, our sales volume stabilized at approximately the level of the 2008 third quarter. The cost of nickel, a key raw material in our Raney® catalysts, is generally passed on to our customers. The decrease in the cost of nickel passed on to customers more than offset the effect of price increases implemented primarily in 2008.

Sales for 2008 were essentially flat with 2007 reflecting market growth, new product introductions, and geographic expansion during the first three quarters of 2008 as offset by a decrease in sales for the fourth quarter of 2008. Sales for the 2008 fourth quarter were down by more than 6% from the 2007 fourth quarter, more than offsetting the effects of price increases and favorable currency translation. Global petrochemical prices and demand fell sharply and polyethylene production decreased in the fourth quarter of 2008 as the global economic slowdown caused our customers to reduce operating rates.

Segment Operating Income (SOI) and Margin-Grace Davison

Grace Davison
SOI and Margin
($ in millions)

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Segment operating income (excluding corporate-initiated restructuring costs) for 2009 increased 19.1% from 2008 (12.2% excluding a $19.2 million gain from a product line divestiture). The favorable effects of price increases, primarily implemented during 2008, lower raw materials and energy costs, and effective control of operating expenses more than offset lower sales volume and unfavorable currency translation.

Segment operating income for 2008 increased 3.1% compared to 2007, primarily due to higher selling prices, increased productivity, and favorable currency translation, which more than offset higher raw materials and energy costs. Segment operating margin for 2009 was 17.1%, 12.8% in 2008, and 13.4% in 2007.

Segment operating margin for 2009 was positively affected by 1.0 percentage points due to the gain on the product line divestiture.

Gross profit percentage for 2009 was 31.4%, up from 27.3% in 2008 and 29.3% in 2007. The improvement in 2009 over 2008 reflects the effects of price increases, primarily implemented during 2008, raw materials and energy cost deflation (partly offset by high cost inventory carried over from 2008) and the cost reduction and restructuring actions described below. As demand for our products started to slow in late 2008, we implemented cost reduction and restructuring actions in our manufacturing plants to reduce fixed costs and increase operational efficiency. We continued and expanded these efforts in 2009 by reducing employment and curtailing spending on product lines that sell to the automotive, housing and construction industries. Notwithstanding our cost reduction efforts, we have continued to invest in research and development to renew existing products and improve performance for our customers. These actions were a major contributor to increased gross profit and segment operating income margins in 2009 and have positioned us to operate on a lower cost basis while preserving growth opportunities. The decline in gross profit percentage from 2007 to 2008 was primarily due to higher raw materials and energy costs, partly offset by increased prices and productivity initiatives.

Operating Segment Overview Grace Construction Products

Following is an overview of the financial performance of Grace Construction Products for the three years ended December 31, 2009, 2008, and 2007.

Net Sales-Grace Construction Products

Grace Construction Products Net Sales
($ in millions)

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Grace Construction Products sales are reported by geographic regions as follows:

	2009 Sales	2009 vs. 2008	2008 Sales	2008 vs. 2007	2007 Sales
	(In millions)				
GCP Americas	$ 458.4	(23.0)%	$ 595.0	1.3%	$ 587.1
GCP Europe*	296.6	(27.1)%	407.1	7.0%	380.6
GCP Asia Pacific	134.6	(8.0)%	146.3	5.8%	138.3
Total GCP Sales	**$ 889.6**	**(22.5)%**	**$ 1,148.4**	**3.8%**	**$ 1,106.0**

* Includes the Middle East, Africa, and India.

The following table presents Grace Construction Products sales of similar products by end-use market:

	2009 Sales	2009 vs. 2008	2008 Sales	2008 vs. 2007	2007 Sales
	(In millions)				
Specialty Construction Chemicals	$ 578.1	(22.0)%	$ 741.3	(0.4)%	$ 744.3
Specialty Building Materials	311.5	(23.5)%	407.1	12.6%	361.7
Total GCP Sales	**$ 889.6**	**(22.5)%**	**$ 1,148.4**	**3.8%**	**$ 1,106.0**

Sales of GCP for 2008 and 2009 have been unfavorably affected by the sequential decrease from 2007 through 2009 in sales volumes, reflecting the negative effect of the global economic slowdown on global construction activity and demand for our products. Sales of our specialty construction chemicals, which are generally the first to show the impact of declining construction activity, since they are usually consumed in the early stages of a project, were down in 2008, but the decrease was partly offset by higher sales of our specialty building materials. Sales of both product groups were down in 2009. As the global economy grew in 2007 and through most of 2008, costs for raw materials used to produce our products increased significantly, especially in the second half of 2008. We raised prices, primarily in 2008, to offset these rising costs. These 2008 price increases, the strong performance of new high value-added specialty products, particularly in specialty building materials, and increased market penetration of our products have partly offset the effect of the global slowdown in construction activity on our sales.

In order to improve economic conditions, governments in many countries have announced fiscal stimulus programs aimed at infrastructure spending. Our sales were not materially affected by these programs in 2009 or 2008.

GCP Americas Sales decreased in 2009 primarily due to volume declines that were partly offset by our 2008 price increases. The sales increase in 2008 reflects the 2008 price increase as offset by a decline in volume that progressed through 2008, especially in the 2008 fourth quarter, resulting from the global economic slowdown.

Sales in North America decreased 25.9% in 2009 and 0.5% in 2008 reflecting volume declines caused by decreased construction activity. The sharp decline in North American construction that began in 2007 has continued through 2009. Based on US Census Bureau figures, U.S. residential housing starts dropped by approximately 33% and 39% in 2008 and 2009, respectively. According to McGraw Hill Construction, U.S. commercial construction has decreased significantly, with U.S. building starts, measured in square feet of space, declining by approximately 17% and 43% in 2008 and 2009, respectively. U.S. infrastructure project construction (also called "nonbuilding" construction), measured on a constant-dollar basis, was essentially flat in 2008 and trended downward in 2009.

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Sales in Latin America increased 4.4% in 2009 and 20.2% in 2008. The effect of the 2008 price increases and volume growth, driven by increased market penetration and the introduction of new products, was partly offset by unfavorable currency translation.

GCP Europe Sales decreased in 2009 primarily due to volume declines and unfavorable currency translation partly offset by our 2008 price increases. The sales increase in 2008 reflects continued volume growth through the first three quarters of 2008, the 2008 price increases and favorable currency translation offset by volume declines in the 2008 fourth quarter.

Sales in Europe declined 27.1% in 2009 and increased 7.0% in 2008. Beginning in the fourth quarter of 2008 and continuing through 2009, construction activity in Western and Eastern Europe decreased significantly from prior year levels. This decrease resulted in a significant decline in demand for our customers' products. In response to these declines, many of our European customers reduced their production.

Sales in the Middle East declined 21.8% in 2009 and increased 45.4% in 2008. Between 2003 and 2008, the Middle East was one of the world's most dynamic construction markets with a rapid pace of real estate and infrastructure development growth led by the United Arab Emirates (especially Dubai). Since the first quarter of 2009, major construction projects in the Middle East have been delayed or halted, especially in the United Arab Emirates (especially Dubai), resulting in reduced cement, concrete and building materials consumption and negatively affecting other demand for our products.

GCP Asia Pacific Sales declined in 2009 primarily due to the adverse effect of currency translation and lower sales volumes in countries where we have a well-established presence partly offset by our 2008 price increases. The sales increase in 2008 reflects continued volume growth through the first three quarters of 2008, the 2008 price increase and favorable currency translation partly offset by volume declines in the 2008 fourth quarter.

GCP Asia Pacific consists of economies that include both developed and emerging markets. Research by IHS Global Insight indicates that in 2008 and 2009, growth in construction spending in this region has been led by emerging markets in which we have less or no presence and that other developed markets in which we have a substantial presence have experienced declines in construction spending. We are continuing to invest in China and other emerging markets to expand our presence and build demand for our specialty construction chemicals and specialty building materials products while maintaining our position in other areas of the region.

Segment Operating Income (SOI) and Margin Grace Construction Products

Grace Construction Products
SOI and Margin
($ in millions)

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Segment operating income (excluding corporate-initiated restructuring costs) declined year-over-year for the three year period ended December 31, 2009. The favorable effects of price increases (primarily implemented during 2008), lower 2009 raw material costs and effective control of operating expenses were more than offset by decreases in sales volumes, higher 2008 raw material costs and unfavorable 2009 currency translation.

Gross profit percentage for 2009 was 36.0%, 34.5% in 2008 and 36.2% in 2007. The improvement in gross profit percentage in 2009 is due to price increases that we implemented primarily in the second half of 2008, a decrease in raw materials costs from their peak in the fourth quarter of 2008 and the restructuring actions described below. Our raw materials costs rose rapidly in 2008, peaked in November 2008, and then declined rapidly before stabilizing in the fourth quarter of 2009. We experienced increasing costs for certain raw materials during 2009 though raw materials costs remained below the levels of the prior year period.

As demand from our customers slowed in 2008 and 2009, we implemented cost reduction initiatives and restructuring actions in all geographic regions to improve our operating margins. We strengthened discretionary cost controls starting in the first quarter of 2008. We began reducing our workforce in the second quarter of 2008 and reassigned key employees and other resources from declining developed markets to higher growth regions such as Latin America, the Middle East, India, and Asia Pacific. We implemented a program to rationalize our production facilities, and we sold some redundant assets and two small non-strategic product lines. Notwithstanding these actions, we continued to invest in research and development to support both product lines. These actions were designed to provide sustainable improvement in our gross profit and segment operating margins.

Corporate Overview

Corporate Operating Expenses
($ in millions)

Corporate costs include corporate functional costs (such as finance, legal services, human resources, communications and information technology), and other corporate costs such as insurance premiums, professional fees, and incentive compensation related to corporate functions. Corporate functional costs for 2009 decreased 7.3% compared with 2008 due primarily to cost reduction efforts. Other corporate costs increased in 2009 compared to 2008 primarily due to higher incentive compensation expenses, higher legal costs related to a commercial dispute, and planned one time costs related to the IT transition announced in the second quarter of 2009.

Corporate operating expenses for 2008 decreased 2.8% compared with 2007 primarily due to lower incentive compensation expenses.

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Core Pension Expense

The following table presents our core defined benefit pension expense for our advance-funded and pay-as-you-go plans:

Core Defined Benefit Pension Expense	2009	2008	2007
	(In millions)		
Total Defined Benefit Pension Expense	$ 85.6	$ 56.8	$ 52.6
Less: noncore pension expense	(16.7)	(11.2)	(7.1)
Total Core Pension Expense	$ 68.9	$ 45.6	$ 45.5

Core pension expense includes costs under domestic and foreign defined benefit pension plans that provide benefits to Grace Davison, Grace Construction Products, and corporate employees (and excludes estimated defined benefit pension expense related to employees of divested businesses, which are reported as part of pre-tax loss from noncore activities).

In 2009, approximately 25% of our pension plan participants were active employees. Approximately 75% are retired or former employees and more than approximately 35% are retired or former employees of divested businesses. As a result, only $22.8 million, or 27%, of total defined benefit pension expense in 2009 related to current service. Approximately 71%, or $60.9 million, of total defined benefit pension expense resulted from the funded status of our plans and the amortization of accumulated actuarial losses.

Pension expense increased significantly in 2009 from the prior years primarily due to the significant decline in pension asset values in 2008.

Pre-tax Loss from Noncore Activities

Pre-tax loss from noncore activities reflects financial matters unrelated to our core operations. We expect this category of costs and income to be volatile as we address potentially material items through our Chapter 11 and other legal proceedings and the financial implications of our legal contingencies become apparent. Some noncore activities are shown as separate items on the Consolidated Statements of Operations. Those not separately listed are primarily included in selling, general and administrative expenses and in other (income) expense. The table below shows the components of noncore activities, and the captions in which each component is presented in the Consolidated Statements of Operations:

	2009	2008	2007
	(In millions)		
Legal defense costs	**$ (36.0)**	$ (31.6)	$ (21.2)
D&O insurance cost portion related to Chapter 11	**(3.3)**	(3.8)	(6.0)
Asbestos administration	**(7.9)**	(8.2)	(14.9)
Postretirement benefit (cost) income divested businesses	**(1.6)**	0.4	1.9
Other	**(5.0)**	(4.4)	(4.4)
Total selling, general and administrative expenses	**(53.8)**	(47.6)	(44.6)
Net pension costs divested businesses	**(16.7)**	(11.2)	(7.1)
Total defined benefit pension expense	**(16.7)**	(11.2)	(7.1)
Provision for environmental remediation vermiculite and other sites	**(4.2)**	(14.6)	(17.0)
Total provision for environmental remediation	**(4.2)**	(14.6)	(17.0)
COLI income, net	**1.2**	3.0	5.4
Translation effects intercompany loans	**11.0**	(6.9)	10.5
Value of currency forward contracts intercompany loans	**(15.9)**	10.7	(8.2)
Other	**(9.3)**	8.9	2.4
Total other income (expense), net	**(13.0)**	15.7	10.1

Total pre-tax loss from noncore activities	**$**	**(87.7)**	$	(57.7)	$	(58.6)

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The increase in the noncore loss for 2009 is primarily due to higher noncore pension and other postretirement benefit expenses, higher noncore legal expenses, and a larger net difference between the change in value of non-U.S. dollar intercompany loans and the change in value of the associated currency derivative contracts (this non-cash net difference results from a difference in the changes in the currency spot rate used to value the intercompany loans and the changes in the forward points and discount rates used to value the derivative contracts for accounting purposes), partly offset by a lower provision for environmental remediation. In addition, the loss from noncore activities for 2008 includes a gain from the sale of a noncore asset.

In November 2007, we purchased currency forward contracts to mitigate the effect of currency risk with respect to intercompany loans between our principal U.S. subsidiary and a German subsidiary. The change in value of the loans and the change in fair value of the derivative contracts resulted in a net loss of $5.8 million for 2009 compared with a net gain of $0.9 million for 2008. The change in value of the intercompany loans and the derivative contracts is recorded as a component of other (income) expense in the Consolidated Statements of Operations. These changes do not affect cash flow until the intercompany loans are repaid and the derivative contracts are settled.

Chapter 11 Expenses

Although we are unable to precisely measure the impact of our Chapter 11 proceedings on our overall financial performance, we incur significant added costs that are directly attributable to operating in Chapter 11. Net Chapter 11 expenses consist primarily of legal, financial and consulting fees that we, the three creditors' committees, the equity committee and the legal representatives of future asbestos claimants incur, reduced by interest income earned on cash and cash equivalents held by our entities subject to Chapter 11. We pay for the costs of these committees and representatives and their respective financial advisors. These costs fluctuate with the activity in our Chapter 11 proceedings.

Direct Chapter 11 expenses are as follows:

Chapter 11 Expenses, net	**2009**	**2008**	**2007**
		(In millions)	
Total Chapter 11 expenses	**$ 49.1**	$ 63.6	$ 95.1
Interest (income) expense on filing entity cash/investment balances	**(1.1)**	2.2	(8.7)
Chapter 11 expenses, net	**$ 48.0**	$ 65.8	$ 86.4

The decrease in direct Chapter 11 expenses for 2009 from the prior years was primarily due to a decrease in activity compared with 2008 when we were conducting a trial for estimating the liability for PI Claims which was suspended in April 2008 as a result of the PI Settlement.

We incur numerous other indirect costs to manage our Chapter 11 proceedings such as: management time devoted to Chapter 11 matters; added cost of debt capital; added costs of general business insurance, including D&O liability insurance premiums; and lost business and acquisition opportunities due to the complexities and restrictions of operating under Chapter 11.

We present the net costs of our reorganization under Chapter 11 of the U.S. Bankruptcy Code as "Chapter 11 expenses, net of interest income," a separate caption in our Consolidated Statements of Operations. We do not include Chapter 11 expenses in the measures of income from core operations or loss from noncore operations.

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Interest Expense

Interest expense decreased in 2009 as compared to 2008 and 2007. The decrease in interest expense is due to reductions in the prime rate, partially offset by the effects of compounding interest on certain liabilities subject to compromise over the course of the Chapter 11 proceeding.

The average effective interest rates on pre-petition obligations for 2009, 2008, and 2007 were 3.5%, 4.7% and 6.3%, respectively. Such interest will not be paid until the Joint Plan or another plan of reorganization is confirmed and becomes effective.

Income Taxes

Taxes on income for 2009, 2008 and 2007 were a provision of $11.5 million, a provision of $4.3 million and a benefit of $1.1 million respectively, against income (loss) from consolidated operations before income taxes of $82.7 million in 2009, $125.8 million in 2008 and $87.7 million in 2007.

Our 2009 effective tax rate is lower than the 35% U.S. statutory rate primarily due to benefits of $20.3 million resulting primarily from the resolution of uncertain tax positions, and $9.3 million due to lower taxes in non-US jurisdictions, partly offset by a provision of $2.1 million for expense related to undistributed foreign earnings and $5.9 million for nondeductible expenses related to Chapter 11

Our 2008 effective tax rate is lower than the 35% U.S. statutory rate primarily due to benefits of $14.5 million for valuation allowance adjustments, $12.2 million for lower taxes in non-US jurisdictions, a net benefit of $11.9 million recognized on disposition of investments, and $10.6 million for the net adjustments to the liability for uncertain tax positions, partly offset by a provision of $4.5 million for nondeductible expenses related to Chapter 11.

Our 2007 effective tax rate is lower than the 35% U.S. statutory rate primarily due to benefits of $44.8 million for adjustments to our reserve for deferred tax expense related to undistributed foreign earnings, $13.3 million for net adjustments to the liability for uncertain tax positions, and $5.0 million for lower taxes in non-US jurisdictions, partly offset by a provision for $20.1 million related to recording a deferred tax liability on life insurance investments and $11.4 million for nondeductible expenses related to Chapter 11.

See Note 10 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 December 31, 2009. 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 13 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, 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. Based on current liquidity and expected 2010 cash flow, we expect to require new financing of up to $850 million to consummate the Joint Plan. In addition, we intend to seek a $200 million revolving

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credit facility in connection with our exit financing. Goldman Sachs and Deutsche Bank have been selected as our lead lenders and on February 16, 2010 the Bankruptcy Court granted Grace authority to enter into engagement letters with these banks. The actual amount of new financing that we will need to fund the Joint Plan will generally depend on the amount of our available cash resources, including net cash from our operating and investing activities prior to emergence, and the final resolution costs for our outstanding claims and contingent liabilities. In preparation for emergence, in 2009 we repatriated approximately $173 million from our non-US subsidiaries to fund payment of bankruptcy claims. In addition, our principal U.S. subsidiary holds a loan of approximately $355.5 million from a foreign subsidiary. We expect that all or a substantial portion of this loan will be repaid at the time of emergence.

Cash Resources and Available Credit Facilities

At December 31, 2009, we had available liquidity of $954.6 million, consisting of $893.0 million in cash and cash equivalents (approximately $696 million in the U.S.), and approximately $61.6 million of available credit under various non-U.S. credit facilities.

Investment securities of $0.0 million and $21.6 million at December 31, 2009 and 2008, respectively, consist of direct or indirect investments in debt securities through the Columbia Strategic Cash Fund. Prior to the fourth quarter of 2007, we classified our investment in the Columbia Strategic Cash Fund as cash and cash equivalents as redemptions were available in cash. In December 2007, the fund began an orderly liquidation and restricted redemptions to in-kind distribution of portfolio securities. In 2009, the fund was fully liquidated and redeemed, with $22.5 million of Grace's account balance distributed to Grace in cash.

On April 1, 2008 we entered into an amended DIP facility with a syndicate of lenders that provided for up to $165 million of revolving loans and face amount of letters of credit. On February 16, 2010, the Bankruptcy Court granted Grace authority to terminate the DIP facility and replace it with a $100 million cash-collateralized letter of credit facility with a commercial bank to support current outstanding and new letters of credit.

Our non-U.S. credit facilities are extended to various subsidiaries and used by 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 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.

The following table summarizes our non-U.S. credit facilities as of December 31, 2009:

Credit Facilities	Maximum Borrowing Amount	Amount Available	Expiration Date
	(In millions)		
Country			
Germany	72.1	49.9	12/31/11
Germany	17.3	2.1	3/26/10
Other Countries	14.2	9.6	Various through 2010
Total	$ 103.6	$ 61.6	

We believe that these funds and credit facilities will be sufficient to finance our operations and support our business strategy while we are in Chapter 11. We intend to renew our non-U.S. facilities as they expire.

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Analysis of Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2009, 2008, and 2007:

	Year Ended December 31,		
	2009	**2008**	**2007**
	(In millions)		
Net cash provided by operating activities	**$ 433.4**	$ 15.0	$ 100.2
Net cash provided by (used for) investing activities	**26.1**	(31.1)	(206.9)
Net cash provided by (used for) financing activities	**(41.3)**	0.6	33.7
Effect of currency exchange rate changes on cash and cash equivalents	**14.7**	(4.9)	17.2
Increase (decrease) in cash and cash equivalents	**432.9**	(20.4)	(55.8)
Cash and cash equivalents, beginning of period	**460.1**	480.5	536.3
Cash and cash equivalents, end of period	**$ 893.0**	$ 460.1	$ 480.5

Net cash provided by operating activities in 2009 was $433.4 million compared with $15.0 million in 2008. Through our ongoing cash productivity initiatives, we reduced net working capital by $149.5 million during 2009. Net cash provided by operating activities in 2008 includes a payment of $252 million to the Environmental Protection Agency ("EPA") in settlement of the EPA's cost recovery claims related to environmental remediation activities in Libby, Montana.

Net cash provided by investing activities in 2009 was $26.1 million, compared with $31.1 million used in the prior year period. The increase in net cash provided by investing activities is primarily due to proceeds of $68.8 million from the termination of life insurance policies on certain current and former employees. Capital expenditures in 2009 were $93.8 million including over $25 million for strategic programs such as adding capacity for high-growth and high-margin products. Net cash used for financing activities in 2009 was $41.3 million compared with $0.6 million provided by financing activities for the prior year period. The decrease is primarily due to dividend payments to noncontrolling interests and reduced proceeds from the exercise of stock options.

Net cash provided by operating activities in 2008 was $15.0 million compared with $100.2 million in 2007. Net cash provided by operating activities in 2008 includes a payment of $252 million related to the settlement of certain environmental claims relating to our former vermiculite operations in Libby, Montana. Net cash used for investing activities in 2008 was $31.1 million, compared with $206.9 million in 2007. The decrease in net cash used in investing activities is primarily due to decreased investments in short-term debt securities. Capital expenditures in 2008 were $132.2 million, including over $50 million for strategic programs such as adding capacity for high-margin and high-growth products, adding capacity to produce high-cost raw materials internally and building new research and manufacturing capabilities in developing countries. Net cash provided by financing activities in 2008 was $0.6 million compared with $33.7 million in 2007. The decrease is primarily attributable to reduced proceeds from the exercise of stock options.

Debt and Other Contractual Obligations

Total debt outstanding at December 31, 2009 was $905.5 million, including $356.2 million of accrued interest on pre-petition debt. As a result of the Chapter 11 filing, we are now in default on $525.8 million of pre-petition debt, which, together with accrued interest thereon, has been included in "liabilities subject to compromise" as of December 31, 2009. 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

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in accordance with the Joint Plan on such debt during the Chapter 11 proceedings unless further developments lead our management to conclude that it is probable that such interest will be compromised.

Set forth below are our contractual obligations as of December 31, 2009:

Contractual Obligations(1)	Total	Less than 1 Year	1-3 Years	Thereafter
	Payments due by Period (In millions)			
Operating commitments[2]	$ 105.4	$ 93.7	$ 11.7	$
Debt[3]	23.5	12.6	10.9	
Capital leases	0.6	0.2	0.4	
Operating leases	67.3	19.8	35.4	12.1
Pension funding requirements per ERISA[4]	398.3	45.9	271.5	80.9
Pension funding requirements for non-U.S. pension plans[5]	68.0	12.8	40.5	14.7
Total Contractual Obligations	$ 663.1	$ 185.0	$ 370.4	$ 107.7

(1) Excludes liabilities subject to compromise, as we are not able to determine when these amounts will ultimately be settled. We expect that a large portion of these liabilities will be settled when we emerge from Chapter 11.

(2) Amounts do not include open purchase commitments, which are routine in nature and normally settle within 90 days or obligations to employees under annual or long-term incentive programs.

(3) Includes $12.3 million due to an unconsolidated affiliate.

(4) Based on the U.S. qualified pension plans' status as of December 31, 2009, funding requirements under ERISA have been estimated for the next five years. Amounts in subsequent years have not yet been determined.

(5) Based on the non-U.S. pension plans' status as of December 31, 2009, funding requirements have been estimated for the next five years. Amounts have been translated at the applicable December 31, 2009 exchange rates. Amounts in subsequent years have not yet been determined.

See Note 13 to the Consolidated Financial Statements for a discussion of Financial Assurances.

Employee 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 $11.8 million, $12.7 million, and $12.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Defined Benefit Pension Plans

We sponsor defined benefit pension plans for our employees in the U.S., Canada, the U.K., Australia, Germany, Italy, France, Spain, Netherlands, Japan, Philippines, South Korea, Taiwan, South Africa, Brazil and Mexico 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 out of a trust. 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.

We intend to satisfy obligations under our U.S. advance-funded plans and to comply with the requirements of the Employee Retirement Income Security Act of 1974, known generally as ERISA. On June 24, 2009, we obtained bankruptcy court approval to fund minimum required payments under the plans of approximately $30 million for the period from July 2009 through January 2010. In that regard, we contributed approximately $8 million in July 2009, approximately $5 million in September 2009, approximately $9 million in October 2009, and approximately $8 million in January 2010 to the trusts that hold assets of the U.S. advance-funded plans. While we intend to continue to fund all minimum required payments under the U.S. advance-funded plans, there can be no assurance that the bankruptcy court will continue to approve the funding needs of such plans. We expect to fund our U.S. advance-funded plans with approximately $46 million in 2010 based on funding requirements determined in mid-2009. We do not expect our emergence from Chapter 11 to have a direct impact on our accounting for, or funding of, our U.S. advance-funded plans.

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 $18.3 million to these plans in 2009.

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

Funded Status of Pension Plans	Fully Funded(1) Pension Plans 2009	Fully Funded(1) Pension Plans 2008	Fully Funded(1) Pension Plans 2007	Underfunded(1) Pension Plans 2009	Underfunded(1) Pension Plans 2008	Underfunded(1) Pension Plans 2007	Unfunded(2) Pension Plans 2009	Unfunded(2) Pension Plans 2008	Unfunded(2) Pension Plans 2007
	(In millions)								
Projected benefit obligation	**$ 214.2**	$ 169.4	$ 254.8	**$ 1,040.4**	$ 960.8	$ 948.3	**$ 276.5**	$ 249.6	$ 245.9
Fair value of plan assets	**250.9**	218.0	308.9	**668.2**	568.5	779.2			
Funded status (PBO basis)	**$ 36.7**	$ 48.6	$ 54.1	**$ (372.2)**	$ (392.3)	$ (169.1)	**$ (276.5)**	$ (249.6)	$ (245.9)
Benefits paid	**$ (10.8)**	$ (10.7)	$ (11.5)	**$ (61.7)**	$ (61.5)	$ (85.3)	**$ (12.7)**	$ (12.4)	$ (11.5)

(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 $36.7 million as of December 31, 2009, and the overfunded status is reflected as "overfunded defined benefit pension plans" in the Consolidated Balance Sheet. Underfunded plans include a group of advance-funded plans that are underfunded on a PBO basis by a total of $372.2 million as of December 31, 2009. Additionally, we have several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO of $276.5 million at December 31, 2009 is unfunded. The combined balance of the underfunded and unfunded plans was $648.7 million as of December 31, 2009 and is presented as a liability on the Consolidated Balance Sheet as follows: $12.9 million in "other current liabilities;" $372.2 million included in "underfunded defined benefit pension plans;" $158.2 million included in "unfunded pay-as-you-go defined benefit pension plans;" and $105.4 million in "liabilities subject to compromise."

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.

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At the December 31, 2009 measurement date for the U.S. advance-funded plans, the PBO was approximately $1,017 million as measured under U.S. GAAP. The PBO is measured as the present value (using a 5.75% discount rate as of December 31, 2009) of vested and non-vested benefits earned from employee service to date, based upon current services and estimated future pay increases for active employees. Of the participants in the advance-funded plans, approximately 82% are current retirees or employees of our former businesses, which skews the payout pattern to the nearer term. Assets available to fund the PBO at December 31, 2009 were approximately $658 million, or approximately $359 million less than the measured obligation.

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

Cash Contributions to Defined Benefit Pension Plans	2009	2008	2007
		(In millions)	
U.S. advance-funded plans	**$ 37.8**	$ 49.1	$ 76.0
U.S. pay-as-you-go plans	**5.3**	5.1	5.1
Non-U.S. advance-funded plans	**10.8**	6.2	18.3
Non-U.S. pay-as-you-go plans	**7.5**	7.3	6.3
Total Cash Contributions	**$ 61.4**	$ 67.7	$ 105.7

Postretirement Benefits Other Than Pensions

We provide certain health care and life insurance benefits for retired employees, 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 benefits under this program was $6.7 million in 2009, compared with $7.1 million in 2008. We received Medicare subsidy payments of $3.1 million and $0.5 million in 2009 and 2008, respectively. Our recorded liability for postretirement benefits of $69.3 million at December 31, 2009 is stated at net present value discounted at 5.50%. Under our proposed Joint Plan, these benefits would continue.

Noncore Liabilities

We have a number of financial exposures originating from past businesses, products and events. These obligations arose from transactions and/or business practices that date to when Grace was a much larger company, when we produced products or operated businesses that are no longer part of our sales base, when government regulation was less stringent and when scientific knowledge with respect to such businesses and products was much less advanced than today.

The following table summarizes our net noncore liabilities at December 31, 2009 and 2008:

Net Noncore Liabilities	December 31, 2009	December 31, 2008
	(In millions)	
Asbestos-related liabilities	$ (1,700.0)	$ (1,700.0)
Asbestos-related insurance receivable	500.0	500.0
Asbestos-related liability, net	(1,200.0)	(1,200.0)
Environmental remediation	(148.4)	(152.2)
Postretirement benefits	(69.3)	(73.2)
Income taxes	(117.9)	(121.0)
Retained obligations and other	(36.2)	(35.1)
Net noncore liability	$ (1,571.8)	$ (1,581.5)

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The resolution of most of our noncore recorded and contingent liabilities will be determined through the Chapter 11 proceedings. The amounts of these liabilities as ultimately determined through the Chapter 11 proceedings could be materially different from amounts we recorded at December 31, 2009. Our operating statements include periodic adjustments to account for changes in estimates of these liabilities and developments in our Chapter 11 proceeding. These liabilities and contingencies may result in continued volatility in earnings in the future.

Tax Matters

After emergence from Chapter 11 under our proposed Joint Plan, or another plan of reorganization that is ultimately confirmed, we expect to have substantial future tax deductions. Upon emergence under the Joint Plan, we would expect future tax deductions in the aggregate of approximately $2 billion or more, primarily relating to asbestos, environmental and other payments made at emergence and thereafter. The extent to which we will be able to use these deductions after emergence will depend on Section 382 of the Internal Revenue Code, which generally imposes an annual limitation on a corporation's use of its deductions when a corporation undergoes an "ownership change." An ownership change is generally defined as a cumulative change of 50 percentage points or more in the ownership of certain stockholders owning 5% or more of the outstanding Grace common stock over a three year rolling period. If we were to have a change of ownership under Section 382 of the Code, approximately $2 billion of these future deductions could be at risk.

Accordingly, the proposed charter for the reorganized corporation under the Joint Plan provides that in the event there has been a 25 percentage point change of ownership in outstanding Grace stock after emergence, the Board of Directors will have the authority to impose restrictions on the transfer of Grace stock with respect to certain 5% shareholders. These transfer restrictions will generally not impose any limitations on a person or other entity that holds less than 5% of the outstanding Grace stock after emergence to either buy or sell Grace stock on the open market.

See Note 10 to the Consolidated Financial Statements and "Income Taxes" above for further discussion of our tax accounting and tax contingencies.

Other Contingencies

See Note 13 to the Consolidated Financial Statements for a discussion of our other contingent matters.

Inflation

We operate in international economies with both inflation and currency risks. While the inflation rate in the U.S. and other developed economies had been modest and predictable for several years, it was neither in 2008 and 2009. Commodity prices rose rapidly in 2008, peaked in November 2008, and then declined rapidly before stabilizing in the fourth quarter of 2009. As a result, we experienced a general decrease in the cost of raw materials and energy used in 2009 to produce our products.

We estimate that the cost of replacing our property and equipment today is greater than its historical cost. Accordingly, our depreciation expense would be greater if the expense were stated on a current cost basis.

Highly Inflationary Economy

In the first quarter of 2010, Venezuela's economy was determined to be highly inflationary when the blended CPI/NCPI cumulative three-year inflation rate exceeded 100%. Beginning in the first quarter of 2010, we will account for the results of our Venezuela operations as highly inflationary.

We will remeasure our December 31, 2009 Venezuelan balance sheet into our functional currency (USD) and any translation impact will be charged to earnings. We expect the impact of this change to be immaterial to our results of operations.

In January 2010, the Venezuelan government announced a devaluation of the bolivar in an effort to stabilize the economy. Venezuela announced that the fixed official rate would be devalued from the official exchange rate in place since 2005 of 2.15 per USD to a dual rate that sets the bolivar at 4.30 per USD for non-essential items and 2.60 per USD for food, medical supplies and machinery. We expect to primarily use the official rate of 4.30 to record our bolivar denominated transactions in 2010. We expect the overall financial impact to be mitigated by measures in place to minimize the impact to our operations and financial results. Sales in Venezuela accounted for approximately 1% of our sales in 2009. We will continue to monitor developments in the Venezuelan economy to determine any impact to our business activities.

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires that we make estimates and assumptions affecting the assets and liabilities reported at the date of the Consolidated Financial Statements, and the revenues and expenses reported for the periods presented. We believe that our accounting estimates are appropriate and the related balances are reasonable; however, actual amounts could differ from the original estimates, requiring adjustments in future periods. Changes in estimates are recorded in the period in which the change is identified. Our accounting policies are described in Note 1 to the Consolidated Financial Statements. Critical accounting estimates are described in this section.

An accounting estimate is considered critical if the estimate requires management to make assumptions and judgments about matters that were highly uncertain at the time the estimate was made, if different estimates reasonably could have been used, or if changes in the estimate are reasonably likely to occur from period to period that could have a material impact on our financial condition or results of operations. As part of our quarterly disclosure controls and procedures, management has discussed the development, selection and disclosure of the critical accounting estimates with the Audit Committee of the Board of Directors. The accuracy of these and other estimates may be materially affected by the uncertainties arising under our Chapter 11 proceeding.

Contingent Liabilities

We have recorded a liability for the resolution of contingencies related to asbestos lawsuits, environmental remediation, income taxes and litigation. We record a liability if we have determined that a loss is probable, and we are able to reasonably estimate the amount of the loss or have another reasonable basis for recording a liability. We have determined that each of the contingencies discussed below involves an accounting judgment that is material to our Consolidated Financial Statements.

Asbestos-Related Lawsuits

We are a defendant in property damage and personal injury lawsuits relating to previously sold asbestos-containing products. See Note 3 to the Consolidated Financial Statements for a discussion of the background and status of the asbestos-related lawsuits, and how we are attempting to resolve them as part of our Chapter 11 proceeding. We have recorded a liability for our asbestos- related obligations as discussed below.

Our liability for asbestos-related matters has had a material impact on our financial condition and results of operations, and future changes in such liability, if required, will likely lead to material

adjustments to the Consolidated Financial Statements. We expect the ultimate determination of the resolution cost of this obligation to have a material impact on our liquidity and capital resources.

On January 13, 2005, we filed an amended plan of reorganization with the bankruptcy court, the Prior Plan. As discussed in Notes 2 and 3 to the Consolidated Financial Statements, we adjusted our asbestos related liability in the fourth quarter of 2004 based on the filing of the Prior Plan and we have not adjusted our asbestos-related liability to reflect the filing of, or any amendment to, the Joint Plan.

Under the Prior Plan, it is a condition to confirmation that the bankruptcy court shall conclude that the amount necessary to fund all pending and future asbestos personal injury claims and property damage claims (and trust administration costs and expenses) is not greater than $1,613 million. This amount was based in part on our 2004 evaluation of (1) existing but unresolved personal injury and property damage claims, (2) actuarially-based estimates of future personal injury claims, (3) the risk of loss from the Zonolite® attic insulation litigation, (4) proposed claim payments reflected in the Prior Plan, and (5) the cost of the trust administration and litigation. This condition precedent is the basis for our currently recorded asbestos-related liability.

Our asbestos-related insurance receivable is directly dependent on the amount and nature of our asbestos-related liability. We estimate the amount of the receivable based on our analysis of coverage remaining under insurance policies for the 1962 to 1985 period, and the terms of settlement agreements in effect with certain insurers.

As described in Note 2 to the Consolidated Financial Statements, the Joint Plan contemplates that 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 and all asbestos- related property damage claims would be channeled to another asbestos trust. We expect to measure certain of the forms of consideration that we would use to fund the asbestos trusts under the Joint Plan as follows:

Warrants The warrants would be recorded in our Consolidated Financial Statements at fair value on the effective date of the Joint Plan as an increase in paid-in capital and a decrease in our asbestos related liability. The value of the warrants would be calculated using inputs such as risk-free borrowing rates, the market price of Grace common stock underlying the warrants and the expected volatility of Grace common stock prices.

Deferred payments We would record a liability for the present value of the future cash payments to be made from 2019 to 2033, and a decrease in our asbestos related liability. We would estimate this value using a discount rate that is impacted by many factors including: (i) interest rates at the effective date of the Joint Plan; (ii) our credit standing, (iii) restrictive covenants and terms of our other credit facilities; and (iv) assessment of the risk of a default, which would require us to issue shares of Grace common stock.

The treatment of asbestos-related liabilities is significantly different under the Joint Plan than under the Prior Plan. We have not adjusted our accounting for asbestos related liabilities to reflect the Joint Plan. At this time, we are unable to determine a reasonable estimate of the value of the warrants and deferred payments to be issued to the asbestos trusts under the Joint Plan. These values will ultimately be determined on the effective date of the Joint Plan. We expect to adjust our accounting for the Joint Plan when the consideration can be measured and material conditions to the Joint Plan are satisfied. We expect these adjustments may be material to our consolidated financial position and results of operations.

We provided proforma and prospective financial information for the Joint Plan in the exhibits to the Joint Plan in compliance with the requirements of the Bankruptcy Code. That proforma and prospective financial information is not included in or incorporated into this Report.

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The fair value of the warrants for tax purposes would be treated as a deductible expense in the year of transfer. The deferred payments would be deductible at the time of each payment. Due to the payment of these and other deductible bankruptcy claims, we anticipate generating significant future tax deductions beginning in the year of emergence. See Note 10 to the Consolidated Financial Statements for a discussion of future tax deductions that we may generate in connection with emergence from Chapter 11.

Environmental Remediation

We are obligated under applicable law to remediate certain properties related to our business or former businesses. At some sites we finance all or a portion of remediation conducted by third parties and at others, we perform the required remediation ourselves. Our environmental remediation obligation has a significant impact on our Consolidated Financial Statements. See Note 13 to the Consolidated Financial Statements for a discussion of our environmental remediation liabilities.

At sites where third parties conduct remediation, we estimate our obligations from information available to us, including actual costs incurred, expected future costs and time to completion.

At sites where we conduct remediation, we work with regulatory authorities to define compliance requirements and then estimate the cost required to meet those requirements. We base our estimates on our historical knowledge and engineering assessments specific to conditions at each site and we update our estimates as necessary.

Our estimates can fluctuate significantly due to the extended duration of some remediation projects. The accuracy of our estimates is dependent on the validity of assumptions regarding such matters as labor rates, indirect costs and capital costs (such as building materials), which are difficult to forecast over extended periods. We cannot estimate the impact on our Consolidated Financial Statements of using other reasonably possible assumptions because we primarily rely on the assumptions and estimates of the applicable regulatory authorities. Future changes in estimates, if required, will more than likely lead to material adjustments to our Consolidated Financial Statements, and we expect the ultimate resolution of these obligations to have a material impact on our liquidity and capital resources.

Litigation

We are subject to legal proceedings and claims arising out of the normal course of business. We are currently a party to various legal proceedings, both civil and criminal in nature, in which we have been named as a defendant. See Note 13 to the Consolidated Financial Statements for a discussion of our significant legal proceedings.

To estimate the cost to resolve our legal obligations, we review the facts of each matter to determine the merits of the case and the corresponding probability of a loss. If we determine that a loss is probable, we determine if there is sufficient information to make a reasonable estimate of the loss amount. Our estimates regarding the outcome of our legal proceedings and claims involve substantial uncertainties that could cause our actual losses to differ materially from our estimates. In estimating the likely outcome of a legal proceeding, we consider the nature of the specific claim (or unasserted claim), our experience with similar claims, the jurisdiction in which the proceeding is filed, court rulings, the status of any settlement negotiations, the likelihood of resolution through settlement or alternative dispute resolution, the proceeding's current status and other relevant information and events. We adjust our recorded liability for litigation contingencies as necessary to reflect our current evaluation of these and other factors.

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Pension and Other Postretirement Benefits Expenses and Liabilities

We sponsor defined benefit pension plans for our employees in the United States, Canada, the United Kingdom, Australia, Germany, Italy, France, Spain, Netherlands, Japan, Philippines, South Korea, Taiwan, South Africa, Brazil and Mexico and fund government sponsored programs in other countries where we operate. See Note 11 to the Consolidated Financial Statements for a detailed discussion of our pension plans and other postretirement benefit plans.

In order to estimate our pension and other postretirement benefits expenses and liabilities, we evaluate the range of possible assumptions to be used in the calculation of pension and other postretirement benefits expenses and liabilities. We select the assumptions that we believe to be most indicative of factors such as participant demographics, past experiences and market indices, and provide the assumptions to independent actuaries. These assumptions are updated annually and primarily include factors such as discount rates, health care cost trend rates, expected return on plan assets, mortality rates, retirement rates, and rate of compensation increase. The independent actuaries review our assumptions for reasonableness, and use the assumptions to calculate our estimated liability and future pension expense. We review the actuarial reports for reasonableness and adjust our expenses, assets and liabilities to reflect the amounts calculated in the actuarial reports.

On a quarterly basis, we analyze the rollforward of pension assets and pension liabilities along with the resulting funded status to assure that the Consolidated Balance Sheet reflects an updated estimate of these measures each period. Funded status is adjusted for actual contributions, benefit payments, return on assets and other identifiable and material actuarial changes. Discount rates are also evaluated for reasonableness each period.

Income Taxes

We are a global enterprise with operations in more than 40 countries. This global reach results in a complexity of tax regulations, which require assessments of applicable tax law and judgments in estimating our ultimate income tax liability. See Note 10 to the Consolidated Financial Statements for a detailed discussion of our estimates used in accounting for income taxes and income tax contingencies.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. We measure tax benefits in our financial statements from such a position as the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed in our tax returns that do not meet these recognition and measurement standards.

We record a liability for income tax contingencies when it is more likely than not that a tax position we have taken will not be sustained upon audit. We evaluate such likelihood based on relevant facts and tax law. We adjust our recorded liability for income tax matters due to changes in circumstances or new uncertainties, such as amendments to existing tax law. Our ultimate tax liability depends upon many factors, including negotiations with taxing authorities in the jurisdictions in which we operate, outcomes of tax litigation, and resolution of disputes arising from federal, state, and foreign tax audits. Due to the varying tax laws in each jurisdiction senior management, with the assistance of local tax advisors as necessary, assesses individual matters in each jurisdiction on a case-by-case basis. We research and evaluate our income tax positions, including why we believe they are compliant with income tax regulations, and these positions are documented internally.

Deferred income taxes result from the differences between the financial and tax basis of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are

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enacted. If it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is provided against such deferred tax assets. Significant judgment is required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. The assessment of realization of deferred tax assets is performed annually under scenarios of future taxable income and tax planning alternatives that are considered reasonable in the circumstances.

Recent Accounting Pronouncements

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

W. R. GRACE & CO. AND SUBSIDIARIES
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In millions)

For the Year Ended December 31, 2009

Description	Balance at beginning of period	Additions/(deductions) Charged/ (credited) to costs and expenses	Deductions	Other net(3)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 6.7	$ 4.3	$ (1.3)	$ (0.1)	9.6
Allowances for long-term receivables					
Valuation allowance for deferred tax assets(4)	132.0		(39.7)		92.3
Reserves:					
Reserves for asbestos-related litigation	1,700.0				1,700.0
Reserves for environmental remediation	152.2	4.4	(7.7)	(0.5)	148.4
Reserves for retained obligations of divested businesses	35.1	1.4	(0.3)		36.2

For the Year Ended December 31, 2008

Description	Balance at beginning of period	Additions/(deductions) Charged/ (credited) to costs and expenses	Deductions	Other net(3)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 6.9	$ 2.2	$ (2.6)	$ 0.2	$ 6.7
Allowances for long-term receivables					
Valuation allowance for deferred tax assets	143.0	(11.0)			132.0
Reserves:					
Reserves for asbestos-related litigation	1,700.0				1,700.0
Reserves for environmental remediation	394.7	14.6	(256.9)	(0.2)	152.2
Reserves for retained obligations of divested businesses	$ 36.2	$	$ (1.1)	$	$ 35.1

For the Year Ended December 31, 2007

Description	Balance at beginning of period	Additions/(deductions) Charged/ (credited) to costs and expenses	Deductions	Other net(3)	Balance at end of period

Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 8.3	$ (0.4)	$ (0.7)	$ (0.3)	$ 6.9
Allowances for long-term receivables	0.5	(0.5)			
Valuation allowance for deferred tax assets	185.2	(42.2)			143.0
Reserves:					
Reserves for asbestos-related litigation	1,700.0				1,700.0
Reserves for environmental remediation	361.1	17.0	(9.5)	26.1(1)	394.7
Reserves for retained obligations of divested businesses	$ 23.3	$	$ (1.0)	$ 13.9(2)	$ 36.2

(1) Reclassification of accrued interest on payments related to Libby, Montana EPA settlement

(2) Primarily represents a reclassification from tax reserves

(3) Various miscellaneous adjustments against reserves and effects of currency translation

(4) The change in the valuation allowance from December 31, 2008 to 2009 primarily represents a reduction in the valuation allowance related to state net operating losses that expired in 2009.

EXHIBIT 12

W. R. GRACE & CO. AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS[1]

(In millions, except ratios)
(Unaudited)

	Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Net income attributable to W.R. Grace & Co. shareholders	**$ 71.2**	$ 121.5	$ 88.8	$ 8.6	$ 76.0
Provision for (benefit from) income taxes	**11.5**	4.3	(1.1)	2.8	26.0
Equity in earnings of unconsolidated affiliates	**(1.7)**	(0.6)			
Interest expense and related financing costs, including amortization of capitalized interest	**38.8**	54.9	73.0	74.1	56.6
Estimated amount of rental expense deemed to represent the interest factor	**6.7**	7.9	6.9	6.2	6.2
Income (loss) as adjusted	**$ 126.5**	$ 188.0	$ 167.6	$ 91.7	$ 164.8
Combined fixed charges and preferred stock dividends:					
Interest expense and related financing costs, including capitalized interest	**$ 38.9**	$ 54.5	$ 74.1	$ 74.4	$ 55.2
Estimated amount of rental expense deemed to represent the interest factor	**6.7**	7.9	6.9	6.2	6.2
Fixed charges	**45.6**	62.4	81.0	80.6	61.4
Combined fixed charges and preferred stock dividends	**$ 45.6**	$ 62.4	$ 81.0	$ 80.6	$ 61.4
Ratio of earnings to fixed charges	**2.77**	3.01	2.07	1.14	2.68
Ratio of earnings to combined fixed charges and preferred stock dividends	**2.77**	3.01	2.07	1.14	2.68

(1) Grace preferred stocks were retired in 1996.

EXHIBIT 31.(i).1

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, A. E. Festa, certify that:

1. I have reviewed this annual report on Form 10-K of W. R. Grace & Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2010

/s/ A. E. FESTA

A. E. Festa
President and Chief Executive Officer

EXHIBIT 31.(i).2

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hudson La Force III, certify that:

1. I have reviewed this annual report on Form 10-K of W. R. Grace & Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2010

/s/ HUDSON LA FORCE III

Hudson La Force III

Senior Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned certifies that (1) this Annual Report of W. R. Grace & Co. (the "Company") on Form 10-K for the period ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ A. E. FESTA

President and Chief Executive Officer

/s/ HUDSON LA FORCE III

Senior Vice President and Chief Financial Officer

Date: February 25, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.