

W R GRACE & CO  
Form 10-K  
February 27, 2013

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

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FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

Commission file number 1-13953

W. R. GRACE & CO.

Incorporated under the Laws of the  
State of Delaware

I.R.S. Employer Identification No.  
65-0773649

7500 Grace Drive, Columbia, Maryland 21044-4098  
(410) 531-4000

Securities registered pursuant to Section 12(b) of the Exchange Act:

|                                 |   |
|---------------------------------|---|
| Title of each class             | Name of each exchange on which registered |
| Common Stock, \$.01 par value   | New York Stock Exchange, Inc.             |
| Preferred Stock Purchase Rights |   |

Securities registered pursuant to Section 12(g) of the Exchange Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

|   |  |   |   |
|---|--|---|---|
| Large accelerated filer <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/><br>(Do not check if a<br>smaller reporting<br>company) | Smaller reporting<br>company <input type="checkbox"/> |
|---|--|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of W. R. Grace & Co. voting and non-voting common equity held by non-affiliates as of June 30, 2012 (the last business day of the registrant's most recently completed second fiscal quarter) based on the closing sale price of \$50.45 as reported on the New York Stock Exchange was \$3,290,077,932.\*

At January 31, 2013, 75,592,381 shares of W. R. Grace & Co. Common Stock, \$.01 par value, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

Based on 65,214,627 shares of W. R. Grace & Co. ("Grace") Common Stock, \$.01 par value, held by non-affiliates (74,845,708 shares outstanding as of June 30, 2012 less 9,631,081 shares held by stockholders, whose beneficial ownership exceeds 10% of the outstanding shares of Grace Common Stock, as listed in the Grace 2011 Annual \*Report on Form 10-K as filed with the SEC on February 24, 2012, directors and named executive officers).

Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of Grace, or that such person is controlled by or under common control with Grace.

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Grace®, Grace® logo and, except as otherwise indicated, the other trademarks, service marks or trade names used in the text of this report are trademarks, service marks or trade names of operating units of W. R. Grace & Co. or its affiliates and/or subsidiaries. RESPONSIBLE CARE® is a trademark, registered in the United States and/or other countries, of the American Chemistry Council.

Unless the context otherwise indicates, in this document the terms "Grace," "we," "us," "our" or "the Company" mean W. R. Grace & Co. and/or its consolidated subsidiaries and affiliates. Unless otherwise indicated, the contents of websites mentioned in this report are not incorporated by reference or otherwise made a part of this Report.

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PART I

Item 1. BUSINESS

BUSINESS OVERVIEW

W. R. Grace & Co. is engaged in the production and sale of specialty chemicals and specialty materials on a global basis through three operating segments: Grace Catalysts Technologies, which includes catalysts and related products used in refining, petrochemical and other chemical manufacturing applications; Grace Materials Technologies, which includes packaging technologies and engineered materials, used in consumer, industrial, and pharmaceutical applications; and Grace Construction Products, which includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction. We entered the specialty chemicals industry in 1954, when we acquired both the Dewey and Almy Chemical Company and the Davison Chemical Company.

Grace is the successor to a company that originated in 1854 and originally became a public company in 1953.

In 2001, Grace and 61 of its United States subsidiaries and affiliates filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code and, since then, has been subject to the jurisdiction of the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

During the first quarter of 2012, we realigned our business into three operating segments by dividing the businesses formerly operated through our Grace Davison operating segment into two operating segments, Grace Catalysts Technologies and Grace Materials Technologies. We made this change to align our operating segments more closely with the customers we serve and to better position our businesses to realize operational efficiencies and reduce overhead costs, through consolidating the management of our individual businesses at the segment level. We have restated the segment information for each period presented in our consolidated financial statements to reflect this realignment.

Our principal executive offices are located at 7500 Grace Drive, Columbia, Maryland 21044, telephone (410) 531-4000. As of December 31, 2012, we had approximately 6,500 global employees.

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

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

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

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

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

Silica-based engineered materials, including silica-based and silica-alumina-based materials, used in:

Coatings and print media applications, consisting of functional additives that provide matting effects and corrosion protection for industrial and consumer coatings, enable enhanced media and paper quality in ink jet coatings, and act as a functional filler and retention aid in paper,

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

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

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

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

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

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

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

Global scope

We operate our business on a global scale with approximately 72% of our 2012 sales outside the United States. We conduct business in over 40 countries and in more than 40 currencies. We manage our operating segments on a global basis, to serve global markets. Currency fluctuations affect our reported results of operations, cash flows, and financial position.

Strategy Overview

Our strategy is to increase enterprise value by profitably growing our specialty chemicals and specialty materials businesses in the global marketplace and achieving high levels of efficiency. To meet these objectives, we plan to:

- invest in research and development activities, with the goal of introducing new high-performance, technically differentiated products and services while continuing to enhance manufacturing processes and operations;
- expand sales and manufacturing into emerging regions, including China, India, other economies in Asia, Eastern Europe, the Middle East and Latin America;
- pursue selected acquisitions and alliances that complement our current product offerings or provide opportunities for faster penetration of desirable market or geographic segments; and

continue our commitment to process and productivity improvements and cost-management, such as rigorous controls on working capital and capital spending, integration of functional support services worldwide, and programs for supply chain management, which include procurement, materials management and logistics.

CHAPTER 11 FILING

On April 2, 2001, Grace, along with 61 of our United States subsidiaries and affiliates, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for

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the District of Delaware. The cases are being jointly administered under case number 01-01139. Our non-U.S. subsidiaries and certain of our U.S. subsidiaries were not included in the bankruptcy filing.

### Background of Chapter 11

A bankruptcy filing under Chapter 11 of the United States Bankruptcy Code is generally a voluntary action taken by a debtor to resolve financial problems such as major liabilities. Chapter 11 gives a debtor the chance to restructure its finances so that it may continue to operate, provide its employees with jobs and pay its creditors. Chapter 11 can be used by debtors that are faced with large numbers of product liability lawsuits in multiple jurisdictions to provide a practical way to address the potential liabilities under the supervision of one court. A Chapter 11 filing generally stops all lawsuits against a debtor and prevents creditors from taking action to enforce claims or collect any monies or property that might be owed at the time of filing.

Chapter 11 permits a debtor to define and resolve its liabilities under a court-supervised process generally referred to as a reorganization. Unlike a Chapter 7, or liquidation bankruptcy, which results in the sale or distribution of all of the assets of a business, Chapter 11 reorganization permits a debtor to continue its normal business operations. Existing management may continue to manage the debtor's operations during the reorganization. As a debtor-in-possession, a debtor is able to do business with suppliers and customers in a routine manner. Certain other activities, including transactions outside the ordinary course of business, generally require specific approval of the Bankruptcy Court. The Chapter 11 process generally ends when a plan of reorganization for the debtor is confirmed by the Bankruptcy Court and the plan becomes effective following the satisfaction or waiver of any conditions, including the resolution of any appeals. In cases similar to ours with complex asbestos liabilities, debtors have taken several years to complete the Chapter 11 process.

### Grace Chapter 11 Filing

We voluntarily entered Chapter 11 to resolve comprehensively nearly 130,000 pending asbestos personal injury and property damage claims as well as any future demands. These claims and demands relate to past products and processes that involved asbestos, a mineral formerly used widely for many decades in building and other commercial products. Prior to 2000, we were able to resolve asbestos-related claims through direct negotiations and litigation, paying over \$2 billion in claims and legal costs over a 20-year period. In most of the personal injury lawsuits, we were one of many defendants. In 2000 and the first quarter of 2001, we experienced an unexpected 81% increase in personal injury claims, most of which we believe were unmeritorious. We also became a defendant in class action lawsuits alleging damages from ZONOLITE® Attic Insulation, a former attic insulation product. Upward trends in claims filing and settlement demands showed no sign of returning to historic levels. These unfavorable trends were exacerbated by the bankruptcy filings of several of our co-defendants in asbestos personal injury litigation. These trends greatly increased the risk that we would not be able to resolve our pending and future asbestos-related claims in the civil litigation system.

After a thorough review of these developments, our Board of Directors concluded that a federal court-supervised bankruptcy process provided the best forum to achieve fairness in resolving these claims and demands. On April 2, 2001, we, along with 61 of our United States subsidiaries and affiliates, filed voluntary petitions for reorganization under Chapter 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware. Since that time, we have been subject to the jurisdiction of the Bankruptcy Court. We are currently operating as a debtor-in-possession under court protection from creditors and claimants. We believe that our bankruptcy filing will permit a comprehensive resolution of the claims against us, while preserving the inherent value of our businesses. As a consequence of our bankruptcy filing, litigation against us as of the petition date is generally stayed (subject to certain exceptions in the case of governmental authorities), and no party may take any action to realize its pre-petition claims except pursuant to an order of the Bankruptcy Court. Since our bankruptcy filing, the Bankruptcy Court has approved all motions necessary for us to conduct normal business activities. Four committees have been appointed in the bankruptcy cases, two representing asbestos claimants, a third representing other unsecured creditors and a fourth representing shareholders. These committees, a legal representative of future asbestos personal injury claimants and a legal representative of future asbestos property damage claimants, have the right to be heard on all matters that come before the Bankruptcy Court and are playing important roles in the bankruptcy cases.

With certain other proponents, we have filed in the Bankruptcy Court a joint plan of reorganization, the Joint Plan, that is designed to address all pending and future asbestos-related claims and all other pre-petition claims. The Bankruptcy Court and the United States District Court for the District of Delaware have issued orders

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confirming the Joint Plan and overruling all objections. Appeals from these orders have been filed with the United States Court of Appeals for the Third Circuit to resolve certain issues including whether certain creditors are entitled to interest at rates higher than provided for in the Joint Plan; the validity of the asbestos trust structure called for in the Joint Plan; and the classification and treatment of asbestos claims under the Joint Plan. While we have the necessary Bankruptcy Court and District Court approvals to emerge from Chapter 11 protection, our emergence will depend on the satisfaction or waiver of the remaining conditions to the effectiveness of the Joint Plan. These conditions include the payments pursuant to the Sealed Air Settlement and the Fresenius Settlement, the availability of any required exit financing and the final resolution of all appeals from the orders confirming the Joint Plan. We will continue to seek the favorable disposition of the appeals, which may require the completion of the appellate process.

If any of the appeals is resolved adversely to us and the other Joint Plan proponents, whether or not the Joint Plan has become effective, and we cannot either agree with our co-proponents on an amendment to the Joint Plan to address the adverse ruling or agree with our asbestos creditors on the terms of a new plan of reorganization, we expect that the Joint Plan would be terminated and we would resume proceedings in the Bankruptcy Court to estimate the amount of our asbestos-related liabilities.

See disclosure in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 2 (Chapter 11 Information) and Note 3 (Asbestos-Related Litigation) to the Consolidated Financial Statements for a description of our proposed joint plan of reorganization and a detailed discussion of our Chapter 11 cases and asbestos-related liabilities.

### PRODUCTS AND MARKETS

#### Specialty Chemicals and Materials Industry Overview

Specialty chemicals and specialty materials are high value-added products used as catalysts, intermediates, components, protectants or additives in a wide variety of products and applications. They are generally produced in relatively small volumes (compared with commodity chemicals) and must satisfy well-defined performance requirements and specifications. Specialty chemicals and specialty materials are often critical components of end products, catalysts for the production of end products and components used in end products. Consequently, they are tailored to meet customer needs, which generally results in a close relationship between the producer and the customer.

We focus our business on the following, which we believe are important competitive factors in the specialty chemicals and specialty materials industry:

- value-added products and services, sold at competitive prices;
- customer service, including rapid response to changing customer needs;
- technological leadership (resulting from investment in research and development and technical customer service); and
- reliability of product and supply.

We believe that our focus on these competitive factors enables us to deliver increased value to customers and competitive operating margins notwithstanding the increased customer service and research and development costs that this focus entails.

#### Grace Catalysts Technologies Operating Segment

Catalysts Technologies principally applies alumina, zeolite and inorganic support technologies in the design and manufacture of products to create significant value for our diverse customer base. Our customers include major oil refiners and plastics and chemicals manufacturers. We believe that our technological expertise provides a competitive advantage, allowing us to quickly design products that help our customers create value in their markets.



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The following table sets forth Catalysts Technologies sales of similar products as a percentage of Grace total revenue.

| (In millions)                        | 2012      |                    | 2011        |                    | 2010      |                    |   |  |
|--------------------------------------|-----------|--------------------|-------------|--------------------|-----------|--------------------|---|--|
|                                      | Sales     | % of Grace Revenue | Sales       | % of Grace Revenue | Sales     | % of Grace Revenue |   |  |
| Refining Catalysts                   | \$986.8   | 31.3               | % \$1,077.5 | 33.5               | % \$742.0 | 27.8               | % |  |
| Polyolefin Catalysts and Supports    | 281.3     | 8.9                | % 269.8     | 8.4                | % 240.3   | 9.0                | % |  |
| Total Catalysts Technologies Revenue | \$1,268.1 | 40.2               | % \$1,347.3 | 41.9               | % \$982.3 | 36.8               | % |  |

The following table sets forth Catalysts Technologies sales by region as a percentage of Catalysts Technologies total revenue.

| (In millions)                        | 2012      |                                     | 2011        |                                     | 2010      |                                     |   |  |
|--------------------------------------|-----------|-------------------------------------|-------------|-------------------------------------|-----------|-------------------------------------|---|--|
|                                      | Sales     | % of Catalysts Technologies Revenue | Sales       | % of Catalysts Technologies Revenue | Sales     | % of Catalysts Technologies Revenue |   |  |
| North America                        | \$382.1   | 30.1                                | % \$462.4   | 34.3                                | % \$323.4 | 32.9                                | % |  |
| Europe Middle East Africa            | 543.5     | 42.8                                | % 600.2     | 44.5                                | % 438.1   | 44.6                                | % |  |
| Asia Pacific                         | 256.9     | 20.3                                | % 216.4     | 16.1                                | % 146.3   | 14.9                                | % |  |
| Latin America                        | 85.6      | 6.8                                 | % 68.3      | 5.1                                 | % 74.5    | 7.6                                 | % |  |
| Total Catalysts Technologies Revenue | \$1,268.1 | 100.0                               | % \$1,347.3 | 100.0                               | % \$982.3 | 100.0                               | % |  |

Grace Catalysts Technologies—Refining Catalysts  
FCC Catalysts

We are a global leader in developing and manufacturing fluid catalytic cracking, or FCC, catalysts and additives that enable petroleum refiners to increase profits by improving product yields and quality. Our FCC products also enable refiners to reduce emissions from their FCC units and reduce sulfur content in the gasoline that they produce.

Oil refining is a highly specialized discipline, and FCC catalysts must be tailored to meet local variations in crude oil and a refinery's product mix. We work regularly with our customers to identify the most appropriate catalyst formulations for their changing needs. We are dependent on the economics of the petroleum industry, specifically, the impacts of demand for transportation fuels and petrochemical products and crude oil supply, which affect the extent to which our customers utilize the available capacity of their refinery FCC units. In general, as a refinery utilizes more of its capacity, it needs a disproportionately greater amount of FCC catalyst. In recent years global economic growth, especially in emerging regions, has increased the demand for transportation fuels, and our FCC catalysts and additives. Other factors may reduce the demand for petroleum-based transportation fuels such as weak economic conditions and high retail gasoline and diesel fuel prices. In addition, government policy that encourages the use of non-petroleum-based fuels, discourages the use of diesel fuel or encourages greater vehicular fuel economy may negatively affect demand for our FCC catalysts and additives.

Refinery feedstocks vary in quality from sweet to heavy crude oil. Sweet crude feedstocks are typically more expensive than heavy crude and yield a greater proportion of high-value petroleum products. They also yield a lower proportion of residual oil, or "resid," which is generally the lowest-value feedstock contained in crude oil. Although heavy crude feedstocks with high resid content are typically less expensive than higher quality feedstocks, the processing of high-resid feedstocks is more difficult because of their relatively high metals, nitrogen and sulfur contamination and higher boiling points. We have designed our MIDAS<sup>®</sup> catalyst, IMPACT<sup>®</sup> catalyst, NEKTOR<sup>™</sup> catalyst, and NOMUS<sup>™</sup> catalyst product portfolios to enable our customers to increase the efficiency and yield of high-resid feedstock refining.

As a result of volatility in the price of diesel fuel as compared to gasoline, refiners desire the flexibility to adjust the yield of light cycle oil, a component of diesel fuel, from their FCC units. We have designed our MIDAS<sup>®</sup> 300 catalyst and DIESELISER<sup>™</sup> catalyst products to increase the yield of light cycle oil from refinery FCC units.

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During 2010, the People's Republic of China reduced its quotas on exports of the rare earths that we use in the manufacture of FCC catalysts, causing significant increases in global prices of rare earths in 2010 and early 2011. In response to these price increases, we developed our RESIDULTRA™ low-rare earth FCC catalyst and our REPLACER® product line of no-rare earth FCC catalysts to mitigate the higher cost of rare earths without sacrificing performance. Starting in the third quarter of 2011, global prices of rare earths declined rapidly and significantly. Since then, we have added rare earth to some of our FCC catalyst formulations when doing so improves the performance and value of the catalyst.

Many U.S. petroleum refiners have entered into consent decrees with the U.S. Environmental Protection Agency (EPA) under which the refiners have agreed to reduce emissions of nitrogen oxides and sulfur oxides. The European Union has also imposed requirements on refineries with respect to nitrogen oxides and sulfur oxides emissions. FCC units are generally the largest emitters of these pollutants in a refinery. Our additives are designed to assist refineries in meeting their obligations to reduce these pollutants. Our Super DESOX® additive reduces sulfur oxides emissions from commercial FCC units. During 2011, we also launched our two low rare earth versions of Super DESOX® additive. Our XNOX® and CP®P additives are designed to achieve reductions in nitrogen oxides emissions comparable to those obtained from capital intensive alternatives available to a refinery.

Global economic growth, especially in emerging regions, has increased the demand for plastics. As a result, our refinery customers have sought increased profits from petrochemicals by increasing the yield of propylene from their FCC units. Our ZSM-5-based technology, including our OLEFINSMAX® and OLEFINSULTRA® additive products, is designed to maximize the propylene output of FCC units.

In recent years, many countries and regions, including the U.S., European Union, Russia, India and China have imposed or increased the regulatory limitations on the sulfur content of gasoline and diesel fuel. We have developed a portfolio of products designed to assist refiners in meeting their gasoline sulfur reduction targets including our D-PRISM® and GSR® 5 additives and our SURCA® and NEPTUNE™ catalyst families.

Competition in FCC catalysts and additives is based on technology, product performance, customer service and price. Our principal FCC catalyst competitors are Albemarle and BASF which, with Johnson Matthey, are also principal competitors in FCC additives. We also have multiple regional competitors for FCC catalysts and additives.

### Hydroprocessing Catalysts

We market hydroprocessing catalysts primarily through ART, our joint venture with Chevron. We established ART to combine our technology with that of Chevron and to develop, market and sell hydroprocessing catalysts to customers in the petroleum refining industry worldwide.

As discussed above, our business is dependent on the economics of the petroleum industry. Refineries increasingly use feedstocks that have high resid content. We are a leading supplier of hydroprocessing catalysts designed for processing these feedstocks. We offer products for fixed-bed resid hydrotreating, on-stream catalyst replacement and ebullating-bed resid hydrocracking processes.

We also offer a full line of catalysts, customized for individual refiners, used in distillate hydrotreating to produce ultra-low sulfur content gasoline and diesel fuel, including our SMART CATALYST SYSTEM® and APART® catalyst system. As discussed above, regulatory limitations on the sulfur content of gasoline and diesel fuel are becoming more common. These products are designed to help refiners to reduce the sulfur content of their products. Competition in the hydroprocessing catalyst industry is based on technology, product performance, customer service and price. Criterion, Albemarle, Haldor Topsoe and Axens are our leading global competitors in hydroprocessing catalysts. We also have multiple regional competitors.

### Grace Catalysts Technologies—Polyolefin Catalysts and Catalyst Supports

We are a leading provider of catalyst systems and catalyst supports to the polyolefins industry for a variety of polyethylene and polypropylene process technologies. These types of catalysts are used for the manufacture of polyethylene and polypropylene thermoplastic resins used in products such as plastic film, high-performance plastic pipe, automobile parts, household appliances and household containers. We use a combination of proprietary catalyst and support technology, as well as technology licensed from third parties, to provide unique catalyst-based solutions to industry, and to provide a broad technology portfolio for enhancing collaboration opportunities with technology leaders.



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Our MAGNAPORE® polymerization catalyst is used to produce high performance polyethylene in the slurry loop process for pipe and film applications. Our POLYTRAK® polymerization catalyst is designed to achieve improved polypropylene performance, particularly for impact resistant applications such as automobile bumpers and household appliances.

Our DAVICAT® standard and customized catalysts offer a wide range of chemical and physical properties based on our material science technology for supported catalysts, polystyrene, herbicide, neutraceuticals and on purpose olefins. Our RANEY® nickel, cobalt and copper hydrogenation and dehydrogenation catalysts are used for the synthesis of organic compounds for the fibers, polyurethanes, engineered plastics, pharmaceuticals, sweeteners and petroleum industries.

The polyolefin catalyst and supports industry is technology-intensive and suppliers must provide products formulated to meet customer specifications. There are many manufacturers of polyolefin catalysts and supports including PQ/INEOS, Albemarle, LyondellBasell, Univation and BASF, and most sell their products worldwide.

Grace Catalysts Technologies—Manufacturing, Marketing and Raw Materials

Our Catalysts Technologies products are manufactured by a network of globally coordinated plants that are positioned to service our customers regionally. Our integrated planning organization is responsible for the effective utilization of our manufacturing capabilities.

We use a global organization of technical professionals with extensive experience in refining processes, catalyst development, and catalyst applications to market our refining catalysts and additives. These professionals work to tailor our technology to the needs of each specific customer. We generally negotiate prices for our refining catalysts because our formulations are specific to the needs of each customer and each customer receives individual attention and technical service. We sell a significant portion of our hydroprocessing catalysts through multiple-year supply agreements with our geographically diverse customer base.

We use a global direct sales force for our polyolefin catalysts and supports and chemical catalysts that seeks to maintain close working relationships with our customers. These relationships enable us to cooperate with major polymer and chemical producers to develop catalyst technologies that complement their process developments. We have geographically distributed our sales and technical service professionals to make them responsive to the needs of our geographically diverse customers. We typically operate under long-term contracts with our customers.

Seasonality does not have a significant overall effect on our Catalysts Technologies operating segment. However, sales of FCC catalysts tend to be lower in the first calendar quarter prior to the shift in production by refineries from home heating oil for the winter season to gasoline production for the summer season. FCC catalysts and ebullating-bed hydroprocessing catalysts are consumed at a relatively steady rate and are replaced regularly.

Fixed-bed hydroprocessing catalysts are consumed over a period of years and are replaced in bulk in an irregular pattern. Since our customers periodically shut down their refining processes to replace fixed-bed hydroprocessing catalysts in bulk, our hydroprocessing catalyst sales to any customer can vary substantially over the course of a year and between years based on that customer's catalyst replacement schedule.

The principal raw materials for Catalysts Technologies products include rare earths, molybdenum, caustic soda, aluminum, sodium aluminate, nickel, alumina, kaolin and cobalt. Multiple suppliers are generally available for each of these materials; however, some of our raw materials may be provided by single sources of supply. We seek to mitigate the risk of using single source suppliers by identifying and qualifying alternative suppliers or, for unique materials, by using alternative formulations from other suppliers or by passing price increases on to customers. In some instances, we produce our own raw materials and intermediates.

Prices for many of our raw materials, including metals and petroleum-based specialty and commodity materials such as resins and solvents, have been volatile in recent years. In response to increases in raw material costs, we generally take actions to mitigate the effect of higher costs including increasing prices, developing alternative formulations for our products and increasing productivity. In particular, during 2010, the People's Republic of China reduced its quotas on exports of the rare earths that we use in the manufacture of FCC catalysts, which significantly increased global prices. In response, we have implemented surcharges on certain FCC catalysts and we have taken other actions to reduce the impact of these higher costs on us and our customers.

As in many chemical businesses, we consume significant quantities of natural gas in the production of Catalysts Technologies products. World events and other economic factors have caused volatility in the price of natural gas. Increases or decreases in the cost of natural gas and raw materials can have a significant impact on our operating margins.

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## Grace Materials Technologies Operating Segment

Materials Technologies principally applies silica, zeolite, resin, rubber and latex technologies in the design and manufacture of products to create significant value for our diverse customer base. Our customers include plastics and chemicals manufacturers, producers of rigid food and beverage packaging, coatings manufacturers, consumer product manufacturers and pharmaceutical companies. We believe that our technological expertise provides a competitive advantage, allowing us to quickly design products that help our customers create value in their markets.

The following table sets forth Materials Technologies sales of similar products as a percentage of Grace total revenue.

| (In millions)                        | 2012    |                    | 2011      |                    | 2010      |                    |   |  |
|--------------------------------------|---------|--------------------|-----------|--------------------|-----------|--------------------|---|--|
|                                      | Sales   | % of Grace Revenue | Sales     | % of Grace Revenue | Sales     | % of Grace Revenue |   |  |
| Engineered Materials                 | \$478.3 | 15.1               | % \$500.5 | 15.6               | % \$470.8 | 17.6               | % |  |
| Packaging Products                   | 384.3   | 12.2               | % 372.1   | 11.6               | % 348.6   | 13.0               | % |  |
| Total Materials Technologies Revenue | \$862.6 | 27.3               | % \$872.6 | 27.2               | % \$819.4 | 30.6               | % |  |

The following table sets forth Materials Technologies sales by region as a percentage of Materials Technologies total revenue.

| (In millions)                        | 2012    |                                     | 2011      |                                     | 2010      |                                     |   |  |
|--------------------------------------|---------|-------------------------------------|-----------|-------------------------------------|-----------|-------------------------------------|---|--|
|                                      | Sales   | % of Materials Technologies Revenue | Sales     | % of Materials Technologies Revenue | Sales     | % of Materials Technologies Revenue |   |  |
| North America                        | \$174.0 | 20.2                                | % \$173.1 | 19.8                                | % \$162.8 | 19.9                                | % |  |
| Europe Middle East Africa            | 362.4   | 41.9                                | % 378.6   | 43.4                                | % 353.5   | 43.1                                | % |  |
| Asia Pacific                         | 185.9   | 21.6                                | % 184.1   | 21.1                                | % 171.9   | 21.0                                | % |  |
| Latin America                        | 140.3   | 16.3                                | % 136.8   | 15.7                                | % 131.2   | 16.0                                | % |  |
| Total Materials Technologies Revenue | \$862.6 | 100.0                               | % \$872.6 | 100.0                               | % \$819.4 | 100.0                               | % |  |

## Grace Materials Technologies—Silica-based Materials

We provide enabling technologies that are silica- and silica-alumina-based functional additives and process aids, such as silica gel, colloidal silica, zeolitic adsorbents, precipitated silica and silica-aluminas, for a wide variety of applications. Our product portfolio includes:

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| Application              | Use  | Key Brands   |
|--------------------------|--|--|
| Industrial               | Reinforcing agents for rubber and tires  | PERKASIL®  |
|                          | Inorganic binders and surface smoothening aids for precision investment casting and refractory applications  | LUDOX®   |
|                          | Adsorbents for dual pane windows and industrial applications, desiccant granules, beads, powders and bags and polyurethane moisture scavengers   | PHONOSORB®, PHONOSORB MTX®, SYLOBEAD®, SYLOSIV®, CRYOSIV®, SAFETYSORB® |
|                          | Chemical metal polishing aids and formulations for chemical mechanical planarization/electronics applications  | LUDOX®, POLIEDGE®  |
|                          | Polymer additives for producers and processors of plastic products that prevent layers of polymer film from sticking together, improve dispersal of pigments and ease removal from molds | SYLOBLOC®  |
|                          | Process adsorbents used in petrochemical and natural gas processes for such applications as ethylene-cracked-gas-drying, natural gas drying and sulfur removal                           | SYLOBEAD®  |
|                          | Toothpaste abrasives and thickening agents, free-flow agents, anticaking agents, tableting aids, cosmetic additives and flavor carriers  | SYLODENT®, SYLOID® FP, SYLOBLANC®, ELFADENT®, SYLOID®, SYLOSIV®        |
| Consumer                 | Edible oil refining agents, beer stabilizers and clarification aids for beer, juices and other beverages   | DARACLAR®, TRISYL®   |
|                          | Matting agents, anticorrosion pigments, TiO <sub>2</sub> extenders and moisture scavengers for paints and lacquers   | SYLOID®, SHIELDEX®, SYLOSIV®, SYLOWHITE™                               |
| Coatings and Print Media | Additives and formulations for matte, semi-glossy and glossy ink receptive coatings on high performance ink jet papers, photo paper, and commercial wide-format print media              | SYLOJET®, DURAFILL®, LUDOX®  |
|                          | Paper retention aids, functional fillers, paper frictionizers  | DURAFILL®, LUDOX®, REVELERIS®, REVEALX™, GRACERESOLV™                  |
| Discovery Sciences       | Flash chromatography systems and consumables   | VISIONHT®, VYDAC®, ALLTECH®, ALLTIMA®                                  |
|                          | Analytical scale high performance liquid chromatography (HPLC) columns and detectors   | DAVISIL®, VYDAC®, MODCOL®, SPRING®, MULTIPACKER®                       |
|                          | Preparative scale purification products including media, column hardware, and equipment  | SYLOID® FP   |
|                          | Pharmaceutical excipients and intermediates  | SODASORB®  |
|                          | CO <sub>2</sub> adsorbents for anesthesiology and re-breathing applications  |  |

Our silica-based engineered materials are integrated into our customers' manufacturing processes and, when combined with our technical support, increase the efficiency and performance of their products. By working closely with our customers, we help them to respond quickly to the changing needs of brand owners and consumers. We focus on high-growth segments and seek to develop and introduce new products that add additional value to the current and future needs of our customers. For example, our customers have incorporated our products into higher resolution print media, less abrasive high cleaning toothpastes and technologies that are friendly to the environment such as water-based and VOC-compliant coatings, green tires with lower roll resistance and non-toxic anticorrosion protection. Our discovery sciences products are used in a wide range of applications, including drug discovery and purification for the healthcare, pharmaceutical and biotechnology industries, environmental analysis, forensics, petrochemical analysis and the manufacture of food, cosmetics, vitamins and biofuels. We also market

chromatography consumables and analytical and preparative columns packed with our specialty media. We can modify the base silica and surface chemistry for analytical, preparative and process-scale customers in order to enhance our product performance for their unique applications.

Our silica-based engineered materials sales are global. There are many manufacturers of engineered materials that market their products on a global basis including Evonik, PQ/INEOS, and UOP. Competition is generally based on product performance, technical service and reliability, as well as additional value-added features to address the needs of our customers, end-users and brand owners. Our discovery sciences products compete on the basis of product quality, distinct technology and customer support. Competition for these products is highly fragmented with a large number of companies that sell their products on a global and regional basis, although a number of companies, such as Waters Corporation, Agilent Technologies and Thermo-Fisher, have a substantial global position and a relatively large installed customer base.



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## Grace Materials Technologies—Packaging Products

We are a global leader in can and closure sealants that, along with our specialized can and closure coatings, we supply to the packaging industry. Our product portfolio includes:

## Products

Can sealants for rigid containers that ensure a hermetic seal between the lid and the body of beverage, food, aerosol and other cans

Sealants for metal and plastic bottle closures that are used on pry-off and twist-off metal crowns, as well as roll-on pilfer-proof and plastic closures to seal and enhance the shelf life of food and beverages in glass and plastic bottles and jars

Coatings for metal packaging that are used in the manufacture of cans and closures to protect the metal against corrosion, protect the contents against the influences of metal, ensure proper adhesion of sealing compounds to metal surfaces, and provide base coats for inks and for decorative purposes

Our packaging products are designed to address major industry trends such as lighter weight packaging, lower energy consumption, personal convenience, and highly individualized packaging. Our growth is driven by innovation of higher performing products, continuous discovery of new applications, increasing demand for sustainability and rising disposable income in emerging regions. We seek to capitalize upon our technical customer service, global infrastructure and expertise in global regulatory compliance (including food law compliance) to enhance our growth, especially in emerging regions. We also seek to develop and introduce new products that add additional value to the current and future needs of our customers, such as our introduction of products with oxygen scavenging functionality.

Our packaging products sales are global. There are many manufacturers of packaging products that market their products on a global basis including Altana, Akzo Nobel, PPG and Valspar. Competition is generally based on product performance, technical service and reliability, as well as additional value-added features to address the needs of our customers, end-users and brand owners.

## Grace Materials Technologies—Manufacturing, Marketing and Raw Materials

Our Materials Technologies products are manufactured by a network of globally coordinated plants that are positioned to service our customers regionally. Our packaging products are manufactured in both large facilities to permit economies of scale and a network of smaller operations that enable customization to local market conditions. Our integrated planning organization is responsible for the effective utilization of our manufacturing capabilities.

We use country-based direct sales forces that are dedicated to each product line and backed by application-specific technical customer service teams to market our Materials Technologies products. Our sales force seeks to develop long-term relationships with our customers and focuses on consultative sales, technical support and key account growth programs. To ensure full geographic coverage, our direct sales organization is further supplemented by a network of agents and distributors.

Seasonality does not have a significant overall effect on our Materials Technologies operating segment; however, our packaging products and some of our construction-related products such as insulated glass desiccants are affected by seasonal and weather-related factors including the consumption of beverages, the size and quality of food crops and the level of construction activity. These impacts are mitigated by the global scope of our business.

The principal raw materials for Materials Technologies products include solvents, resins, sodium silicate, latexes (including certain food-grade raw materials) and rubber. Multiple suppliers are generally available for each of these materials; however, some of our raw materials may be provided by single sources of supply. We seek to mitigate the risk of using single source suppliers by identifying and qualifying alternative suppliers or, for unique materials, by using alternative formulations from other suppliers or by passing price increases on to customers. In some instances, we produce our own raw materials and intermediates.

Prices for many of our raw materials, including specialty and commodity materials such as latex, rubbers, pigments, resins and solvents, have been volatile in recent years. In response to increases in raw material costs, we generally take actions to mitigate the effect of higher costs including increasing prices, developing alternative formulations for our products and increasing productivity.

## Key Brands

DAREX®

DAREX®, DARAFORM®, DARASEAL®, DARABLEND®, SINCERA®, CELOX®

DAREX®, APPERTA®, SISTIAGA®

As in many chemical businesses, we consume significant quantities of natural gas in the production of Materials Technologies products. World events and other economic factors have caused volatility in the price of

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natural gas. Increases or decreases in the cost of natural gas and raw materials can have a significant impact on our operating margins.

Since we manufacture a substantial portion of our packaging products in emerging regions using raw materials from suppliers in the U.S., Europe and other advanced economies, changes in the values of the currencies of these emerging regions versus the U.S. dollar and the euro may adversely affect our raw material costs and the prices we may charge for our products.

**Grace Construction Products Operating Segment**

Construction Products produces and sells specialty construction chemicals and specialty building materials. We are a supplier to the nonresidential (commercial and infrastructure) construction industry, and to a lesser extent, the residential construction and repair and restoration industries.

The following table sets forth Construction Products sales of similar products as a percentage of Grace total revenue.

| (In millions)                       | 2012      |                    | 2011      |                    | 2010      |                    |   |  |
|-------------------------------------|-----------|--------------------|-----------|--------------------|-----------|--------------------|---|--|
|                                     | Sales     | % of Grace Revenue | Sales     | % of Grace Revenue | Sales     | % of Grace Revenue |   |  |
| Specialty Construction Chemicals    | \$680.7   | 21.6               | % \$656.6 | 20.5               | % \$586.8 | 21.9               | % |  |
| Specialty Building Materials        | 344.1     | 10.9               | % 335.4   | 10.4               | % 286.5   | 10.7               | % |  |
| Total Construction Products Revenue | \$1,024.8 | 32.5               | % \$992.0 | 30.9               | % \$873.3 | 32.6               | % |  |

The following table sets forth Construction Products sales by region as a percentage of Construction Products total revenue.

| (In millions)                       | 2012      |                                    | 2011      |                                    | 2010      |                                    |   |  |
|-------------------------------------|-----------|------------------------------------|-----------|------------------------------------|-----------|------------------------------------|---|--|
|                                     | Sales     | % of Construction Products Revenue | Sales     | % of Construction Products Revenue | Sales     | % of Construction Products Revenue |   |  |
| North America                       | \$411.5   | 40.2                               | % \$406.3 | 41.0                               | % \$368.0 | 42.1                               | % |  |
| Europe Middle East Africa           | 269.7     | 26.3                               | % 281.6   | 28.4                               | % 261.0   | 29.9                               | % |  |
| Asia Pacific                        | 217.5     | 21.2                               | % 198.8   | 20.0                               | % 165.0   | 18.9                               | % |  |
| Latin America                       | 126.1     | 12.3                               | % 105.3   | 10.6                               | % 79.3    | 9.1                                | % |  |
| Total Construction Products Revenue | \$1,024.8 | 100.0                              | % \$992.0 | 100.0                              | % \$873.3 | 100.0                              | % |  |

**Grace Construction Products—Specialty Construction Chemicals**

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

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| Products   | Uses  | Customers  | Key Brands  |
|--|---|--|---|
| Concrete admixtures                              | Concrete admixtures and polymeric fibers used to reduce the production and in-place costs of concrete, increase the performance of concrete and improve the life cycle cost of the structure  | Ready-mix and precast concrete producers, engineers and specifiers | ADVA <sup>®</sup> , STRUX <sup>®</sup> , MIRA <sup>®</sup> , POLARSET <sup>®</sup> , ECLIPSE <sup>®</sup> |
| Additives for cement processing                  | Cement additives added to the grinding stage of the cement manufacturing process to improve the energy efficiency of the plant and enhance the performance of the finished cement. Chromium reducing additives help cement manufacturers in Europe meet environmental regulations | Cement manufacturers   | CBA <sup>®</sup> , SYNCHRO <sup>®</sup> , HEA2 <sup>®</sup> , TDA <sup>®</sup>                            |
| Products for architectural concrete              | Products for architectural concrete include surface retarders, coatings, pigments and release agents used by concrete producers and contractors to enhance the surface appearance and aesthetics of concrete  | Precast concrete producers and architects                          | PIERI <sup>®</sup>  |
| Admixtures for masonry concrete                  | Products for masonry concrete used by block and paver producers for process efficiency and to improve the appearance, durability and water resistance of finished concrete masonry units  | Masonry block manufacturers  | DRY-BLOCK <sup>®</sup> , OPTEC <sup>®</sup> , QUANTEC <sup>®</sup>  |
| Process control solutions for ready mix concrete | Electro-mechanical devices, sensors and other technologies that assist concrete producers in controlling product quality and production costs   | Ready mix concrete manufacturers                                   | VERIFI <sup>®</sup>   |

## Grace Construction Products—Specialty Building Materials

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

| Products  | Uses   | Customers  | Key Brands  |
|---|--|--|---|
| Remedial waterproofing                                  | Products for repair and remediation in waterproofing applications and soil stabilization   | Contractors, municipalities and other owners of large infrastructure facilities  | DENEFF <sup>®</sup> HYDRO ACTIVE <sup>®</sup> Cut, DENEFF <sup>®</sup> AC-400, DENEFF <sup>®</sup> SWELLSEAL <sup>®</sup> WA, DENEFF <sup>®</sup> MC-500 BITUTHENE <sup>®</sup> , |
| Structural waterproofing, vapor and air barrier systems | Structural waterproofing and air barrier systems to prevent water, vapor and/or air infiltration in commercial structures, including self-adhered sheet and liquid membranes, joint sealing materials, drainage composites and waterstops. | Architects and structural engineers; specialty waterproofing and general contractors; specialty waterproofing distributors | PROCOR <sup>®</sup> , PREPRUFE <sup>®</sup> , ADPRUFE <sup>®</sup> , HYDRODUCT <sup>®</sup> , PERM-A-BARRIER <sup>®</sup> , ADCOR <sup>®</sup> ES, SILCOR <sup>®</sup>            |
| Residential building materials                          | Specialty roofing membranes and flexible flashings for windows, doors, decks and   | Roofing contractors, home builders and   | ICE & WATER SHIELD <sup>®</sup> ,   |

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|                 |   |  |   |
|-----------------|---|--|---|
|                 | detail areas, including fully adhered roofing underlayments, synthetic underlayments and self-adhered flashing.   | remodelers; specialty roofing distributors, lumberyards and home centers; homeowners; architects and specifiers  | TRI-FLEX <sup>®</sup> ,<br>VYCOR <sup>®</sup> |
| Fire protection | Fire protection products spray-applied to the structural steel frame, encasing and insulating the steel and protecting the building in the event of fire. | Local contractors and specialty subcontractors and applicators; building materials distributors; industrial manufacturers; architects and structural engineers | MONOKETE <sup>®</sup>                         |

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### Grace Construction Products—Manufacturing, Marketing and Raw Materials

In view of our diversity of customers and customer requirements, and because specialty construction chemicals and specialty building materials require intensive sales and customer service efforts, we maintain a direct sales and technical support team with sales personnel based in approximately 40 countries worldwide. This sales and support team sells products under global contracts, under U.S. or regional contracts, and on a job-by-job basis. We also use distributors in both U.S. and non-U.S. markets. We compete globally with several large construction materials suppliers, and regionally and locally with numerous smaller competitors. In recent years, the cement and concrete industry has experienced some consolidation, thereby increasing the importance of serving well our global customers. For some customer groups, such as producers and contractors, operational efficiency and total applied cost are key factors in making purchasing decisions, while for others, such as architects and engineers, product performance and design versatility are more important.

Competition for our construction products is based on product performance, technical support and service, brand name recognition in the construction industry and price. Our major global specialty construction chemicals competitors are BASF and Sika.

We seek to improve our products, adapt them for new applications and add new products through our growth and innovation processes that focus on understanding the needs of our customers, key performance indicators and research and development.

In addition to new product introductions and product enhancements, we look for growth opportunities in emerging regions where increasing construction activity, improvement in building codes, and sophistication of construction practices can accelerate demand for our construction products. We continue to expand our commercial and manufacturing capabilities in these geographic areas.

The key raw materials used in our specialty construction products are obtained from a variety of suppliers, including basic chemical and petrochemical producers. The majority of our raw materials are organic chemicals derived from olefins. We also make significant purchases of inorganic materials such as gypsum, as well as specialty materials including specialty films, papers and fibers. In most instances, these materials are available from multiple sources. Global supply and demand factors, changes in currency exchange rates, and petroleum prices have significantly impacted the price and availability of key raw materials in recent years.

The construction business is cyclical in response to economic conditions and construction demand. The construction business is also seasonal and dependent on favorable weather conditions, with a decrease in construction activity during the winter months. Demand for our specialty construction products is primarily driven by global non-residential construction activity and U.S. residential construction activity. We seek to increase profitability and minimize the impact of cyclical downturns in regional economies by introducing technically advanced high-performance products and expanding geographically. Although these strategies have been successful in reducing the impact of cyclical activity, the decline in European construction activity since 2007 has had a negative impact on our sales in Europe.

### FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS AND GEOGRAPHIC AREAS

Disclosure of financial information about industry segments and geographic areas for 2012, 2011 and 2010 is provided in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 20 (Operating Segment Information) to the Consolidated Financial Statements which disclosure is incorporated herein by reference. Disclosure of risks attendant to our foreign operations is provided in this Report in Item 1A (Risk Factors).

### BACKLOG OF ORDERS

While at any given time there may be some backlog of orders, this backlog is not material in respect to our total annual sales, nor are the changes, from time to time, significant.

### INTELLECTUAL PROPERTY; RESEARCH ACTIVITIES

Competition in the specialty chemicals and specialty materials industry is often based on technological superiority and innovation. Our ability to maintain our margins and effectively compete with other suppliers depends on our ability to introduce new products based on innovative technology, as well as our ability to obtain patent or other intellectual property protection. Our research and development programs emphasize development of new products and processes,

improvement of existing products and processes and application of existing products and

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processes to new industries and uses. We conduct research in all regions, with North America and Europe accounting for the most activity.

We routinely file and obtain patents in a number of countries around the world that are significant to our businesses in order to protect our investments in innovation, research, and product development. Numerous patents and patent applications protect our products, formulations, manufacturing processes, equipment, and improvements. We also benefit from the use of trade secret information, including know-how and other proprietary information relating to many of our products and processing technologies. There can be no assurance, however, that our patents, patent applications and precautions to protect trade secrets and know-how will provide sufficient protection for our intellectual property. In addition, other companies may independently develop technology that could replicate, and thus diminish the advantage provided by, our trade secrets. Other companies may also develop alternative technology or design-arounds that could circumvent our patents or may acquire patent rights applicable to our business which might interpose some limitation on expansion of the business in the future.

Research and development expenses were approximately \$65 million, \$69 million and \$60 million in 2012, 2011 and 2010, respectively. These amounts include depreciation and amortization expenses related to research and development and expenses incurred in funding external research projects. The amount of research and development expenses relating to government- and customer-sponsored projects (rather than projects that we sponsor) was not material during these periods. Grace also conducts research and development activities with our unconsolidated affiliate, not included in the amounts above.

**ENVIRONMENT, HEALTH AND SAFETY MATTERS**

We are subject, along with other manufacturers of specialty chemicals, to stringent regulations under numerous U.S. federal, state and local and foreign environment, health and safety laws and regulations relating to the generation, storage, handling, discharge, disposition and stewardship of hazardous wastes and other materials. Environmental laws require that certain responsible parties, as defined in the relevant statute, fund remediation actions regardless of legality of original disposal or ownership of a disposal site. We are involved in remediation actions to address hazardous wastes or other materials as required by U.S. federal, state and local and foreign laws. While in Chapter 11, we generally do not participate in the funding of investigation and remediation at sites that we do not own, unless specifically approved by the Bankruptcy Court. We expect that our ultimate liability with respect to many of these sites will be determined as part of the Chapter 11 cases.

We have expended substantial funds to comply with environmental laws and regulations and expect to continue to do so in the future. The following table sets forth our expenditures in the past three years, and our estimated expenditures in 2013 and 2014, for (i) the operation and maintenance of manufacturing facilities and the disposal of wastes; (ii) capital expenditures for environmental control facilities; and (iii) site remediation:

| Year<br>(In millions) | Operation of<br>Facilities and<br>Waste Disposal | Capital<br>Expenditures | Site<br>Remediation |   |
|-----------------------|--|-------------------------|---------------------|---|
| 2010                  | \$48   | \$7                     | \$8                 |   |
| 2011                  | 58   | 6                       | 12                  |   |
| 2012                  | 61   | 9                       | 13                  |   |
| 2013                  | 62   | 23                      | 12                  | * |
| 2014                  | 61   | 16                      | 15                  | * |

Amounts exclude payments of claims in our Chapter 11 cases and are based on site remediation matters for which \*sufficient information is available to estimate remediation costs. We do not have sufficient information to estimate all of Grace's possible future remediation costs. As we receive new information, our estimate of remediation costs may change materially.

Additional information about our environmental remediation activities is provided in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 12 (Commitments and Contingent Liabilities) to the Consolidated Financial Statements.



We continuously seek to improve our environmental, health and safety performance. To the extent applicable, we extend the basic elements of the American Chemistry Council's RESPONSIBLE CARE® program to all our locations worldwide, embracing specific performance objectives in the key areas of management systems, product stewardship, employee health and safety, community awareness and emergency response, distribution, process

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safety and pollution prevention. We have implemented key elements of the RESPONSIBLE CARE® Security Code for our operations and systems. We have completed a review of our existing security (including cyber-security) vulnerability and have taken actions to enhance our security systems and protect our assets. We have undertaken certain activities to comply with the Department of Homeland Security (DHS) Chemical Facility Anti-Terrorism Standards, including identifying facilities subject to the standards, conducting security vulnerability assessments and developing site security plans, as necessary.

### EMPLOYEE RELATIONS

As of December 31, 2012, we employed approximately 6,500 persons, of whom approximately 2,600 were employed in the United States. Of our total employees, approximately 4,550 were salaried and 1,950 were hourly.

Approximately 750 of our manufacturing employees in the United States are represented for collective bargaining purposes by nine different local collective bargaining groups. We have operated without a labor work stoppage for more than 10 years.

We have works councils representing the majority of our European sites serving approximately 1,600 employees.

### AVAILABILITY OF REPORTS AND OTHER DOCUMENTS

We maintain an Internet website at [www.grace.com](http://www.grace.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, on our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission, or SEC. These reports may be accessed through our website's investor information page. In addition, the charters for the Audit, Compensation, Nominating and Governance, and Corporate Responsibility Committees of our Board of Directors, our corporate governance guidelines and code of ethics are available, free of charge, on our website at [www.grace.com/About/Leadership/Governance/](http://www.grace.com/About/Leadership/Governance/). Printed copies of the charters, governance guidelines and code of ethics may be obtained free of charge by contacting Grace Shareholder Services at 410-531-4167.

The information on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

Our Chief Executive Officer and Chief Financial Officer have submitted certifications to the SEC pursuant to the Sarbanes Oxley Act of 2002 as exhibits to this Report.

### EXECUTIVE OFFICERS

See Part III, Item 10 of this Report for information about our Executive Officers.

### Item 1A. RISK FACTORS

This Report, including the Financial Supplement, contains, and our other public communications may contain, forward-looking statements; that is, information related to future, not past, events. Such statements generally include the words "believes," "plans," "intends," "targets," "will," "expects," "suggests," "anticipates," "outlook," "continues" or similar expressions. Forward-looking statements include, without limitation, all statements regarding: our Chapter 11 case; expected financial positions; results of operations; cash flows; financing plans; business strategy; budgets; capital and other expenditures; competitive positions; growth opportunities for existing products; benefits from new technology and cost reduction initiatives; plans and objectives; and markets for securities. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Like other businesses, we are subject to risks and uncertainties that could cause our actual results to differ materially from our projections or that could cause other forward-looking statements to prove incorrect. Factors that could cause actual events to materially differ from those contained in the forward-looking statements include those factors set forth below and elsewhere in this Annual Report on Form 10-K. Our reported results should not be considered as an indication of our future performance. Readers are cautioned not to place undue reliance on our projections and forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly release any revisions to the projections and forward-looking statements contained in this document, or to update them to reflect events or circumstances occurring after the date



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of this document. In addition to general economic, business and market conditions, we are subject to other risks and uncertainties, including, without limitation, the following:

**COMPANY RISKS**

If our proposed joint plan of reorganization does not become effective, the outcome of our Chapter 11 cases could result in the substantial dilution or cancellation of Grace's outstanding common stock.

With other proponents, we have filed the Joint Plan with the Bankruptcy Court that is designed to address all pending and future asbestos-related claims and all other pre-petition claims. The Bankruptcy Court and the District Court have issued orders confirming the Joint Plan and overruling all objections. Appeals from these orders have been filed with the Third Circuit appellate court to resolve certain issues including whether certain creditors are entitled to interest at rates higher than provided for in the Joint Plan; the validity of the asbestos trust structure called for in the Joint Plan; and the classification and treatment of asbestos claims under the Joint Plan. While we have the necessary court approvals to emerge from Chapter 11 protection, our emergence will depend on the satisfaction or waiver of the remaining conditions to the effectiveness of the Joint Plan. These conditions include the payments pursuant to the Sealed Air Settlement and the Fresenius Settlement, the availability of any required exit financing and the final resolution of all appeals from the orders confirming the Joint Plan. If any of the appeals is resolved adversely to us or our co-proponents, whether or not the Joint Plan has become effective, and we cannot either agree with our co-proponents on an amendment to the Joint Plan to address the adverse ruling or agree with our asbestos creditors on the terms of a new plan of reorganization, we expect that the Joint Plan would be terminated and we would resume proceedings in the Bankruptcy Court to estimate the amount of our asbestos-related liabilities. If the amount of our asbestos-related liabilities, as determined through such proceedings or otherwise, and other liabilities exceed the assets available to satisfy such liabilities, we likely would issue shares of Grace common stock to satisfy such liabilities under a new plan of reorganization. Any such share issuance could result in substantial dilution of the interests of current Grace shareholders. Alternatively, a new plan of reorganization might provide for the cancellation of the interests of current Grace shareholders. Because of this risk of substantial dilution or cancellation, the value of Grace common stock is highly speculative and any investment in Grace common stock poses a high degree of risk.

The bankruptcy process may disrupt our business.

We have attempted to minimize the adverse effect of our Chapter 11 reorganization on our relationships with our employees, suppliers, customers and other parties. Nonetheless, our relationships with our customers, suppliers and employees may be adversely impacted and our operations could be materially and adversely affected. In addition, the continuation of our reorganization could negatively affect our ability to attract new employees and retain existing high performing employees.

Chapter 11 limits the flexibility of our management team in running our business.

While we operate our businesses as debtor-in-possession under supervision by the Bankruptcy Court, we are required to obtain the approval of the Bankruptcy Court prior to engaging in activities or transactions outside the ordinary course of business. For example, our strategic plan includes the acquisition of businesses in the specialty chemicals and specialty building materials industries. Such acquisitions generally require Bankruptcy Court approval if made by W. R. Grace & Co. or its U.S. subsidiaries and affiliates that are debtors in the Chapter 11 cases. Bankruptcy Court approval of non-ordinary course activities entails preparation and filing of appropriate motions with the Bankruptcy Court, negotiation with the various creditors' committees and other parties-in-interest and one or more hearings. The creditors' and shareholders' committees and other parties-in-interest may be heard at any Bankruptcy Court hearing and may raise objections with respect to these motions. This process delays major transactions and limits our ability to respond quickly to opportunities and events in the marketplace. Furthermore, in the event the Bankruptcy Court does not approve a proposed activity or transaction, we would be prevented from engaging in activities and transactions that we believe are beneficial to Grace.

The recorded amount of our asbestos-related liability may change, possibly materially, in future periods.

The amount of our asbestos-related liability at December 31, 2012 that is recorded in our consolidated financial statements represents our best estimate of the value of the consideration we would pay to the PI Trust and the PD Trust at our emergence from bankruptcy under the Joint Plan. We intend to periodically reevaluate the currently recorded amount and may further adjust the recorded amount prior to the effective date of the Joint Plan if we

determine that the recorded amount no longer represents a reasonable estimate of the value of the consideration payable to the Trusts under the Joint Plan. The ultimate cost of settling the asbestos-related liability

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will be based on the value of the consideration transferred to the Trusts at emergence under the Joint Plan and may vary, possibly materially, from the amount currently recorded. Any adjustment to the amount of our asbestos-related liability could have a material effect on our consolidated financial statements.

We may not be able to collect all asbestos-related insurance payments that may be due to us.

We have insurance coverage for a portion of the asbestos-related claims against us. Under the Joint Plan, these insurance policies would be assigned to the asbestos personal injury trust established under the Joint Plan. However, if the Joint Plan does not become effective, these policies would remain with us unless assigned to creditors under the terms of another plan of reorganization. The estimated insurance recovery recorded on our financial statements of \$500 million pertains only to insurance carriers with which we have asbestos settlement agreements and/or which are currently solvent, and we cannot be sure that all these amounts will be collected. In addition, the timing and amount of future payments depends on the continued solvency of the insurers and the resolution of disputes regarding coverage as well as the nature and timing of actual claims paid. If the Joint Plan does not become effective, the receipt of timely and complete payments from the insurers would be important to the success of our reorganization.

We are subject to environmental clean-up fines, penalties and damage claims that have been and continue to be costly. Grace is subject to lawsuits and regulatory actions, in connection with current and former operations (including divested businesses), for breaches of environmental laws that seek clean-up or other remedies. Grace is also subject to lawsuits and investigations by public and private parties under various environmental laws in connection with our current and former operations in various states, including with respect to off-site disposal at facilities where Grace has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, commonly referred to as CERCLA. We are also subject to similar risks outside of the U.S.

Grace operated a vermiculite mine in Libby, Montana until 1990. Some of the vermiculite ore that was mined at the Libby mine contained natural occurrences of asbestos. Grace is cooperating with EPA to investigate the Libby vermiculite mine and the surrounding bodies of water and forest lands and determine a final remedy. During 2010, EPA began reinvestigating up to 105 facilities where vermiculite concentrate from the Libby mine was processed. We are cooperating with EPA on this reinvestigation. EPA has requested that we conduct additional remediation at eight of these facilities. It is probable that EPA will request additional remediation at other facilities. We do not have sufficient information to identify either the sites that might require additional remediation or estimate the cost of any additional remediation. We will evaluate our estimated remediation liability for other sites as we receive additional information from EPA.

We have established accounting accruals for all environmental matters for which a loss is considered to be probable and sufficient information is available to reasonably estimate the loss. We do not have sufficient information to accrue for all of Grace's environmental risks. These accruals do not include the cost to remediate the Libby vermiculite mine or costs related to any additional EPA claims, whether resulting from EPA's reinvestigation of vermiculite facilities or otherwise, which may be material but are not currently estimable. Due to these vermiculite-related matters, it is probable that Grace's ultimate liability for environmental matters will exceed Grace's current estimates by material amounts. Any liability in connection with alleged violations of environmental laws may not be discharged upon confirmation of a plan of reorganization.

We are subject to liabilities with respect to businesses that we have divested in the past.

Over the years, particularly during the 1980s and 1990s, we divested a substantial number of businesses that were not then consistent with our business strategy. With respect to many of these former businesses, we have contractually agreed to indemnify the buyer against liabilities arising prior to the closing of the transaction, including environmental liabilities. In many cases, we have also retained pension liabilities for the current and former employees of these businesses. Some of these obligations would not be discharged under the Joint Plan. We have recorded liabilities with respect to indemnification obligations that we believe are probable and estimable and retained pension liabilities. As we receive additional information or new claims, our recorded liabilities may change materially.

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We have unfunded and underfunded pension plan liabilities. We will require current and future operating cash flow to fund these liabilities. We have no assurance that we will generate sufficient cash flow to satisfy these obligations. We maintain U.S. and non-U.S. defined benefit pension plans covering employees who meet age and service requirements. Our net pension liability and cost is materially affected by the discount rate used to measure pension obligations, the longevity and actuarial profile of our workforce, the level of plan assets available to fund those obligations and the actual and expected long-term rate of return on plan assets. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change in the expected rate of return on plan assets. Assets available to fund the pension benefit obligation of the U.S. advance-funded pension plans at December 31, 2012 were approximately \$1,132 million, or approximately \$161 million less than the measured pension benefit obligation on a U.S. GAAP basis. In addition, any changes in the discount rate could result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net periodic pension cost in the following years. Similarly, changes in the expected return on plan assets can result in significant changes in the net periodic pension cost in the following years.

The global scope of our operations subjects us to the risks of doing business in foreign countries, which could adversely affect our business, financial condition and results of operations.

We operate our business on a global scale with approximately 72% of our 2012 sales outside the United States. We conduct business in over 40 countries and in more than 40 currencies. We currently have many production facilities, research and development facilities and administrative and sales offices located outside North America, including facilities and offices located in Europe, the Middle East, Africa, Asia and Latin America. We expect non-U.S. sales to continue to represent a substantial majority of our revenue. Accordingly, our business is subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many jurisdictions. Risks inherent in non-U.S. operations include the following:

- agreements may be more difficult to enforce and receivables more difficult to collect;
- some foreign countries have adopted, and others may impose, additional withholding taxes or adopt other restrictions on foreign trade or investment, including currency exchange and capital controls;
- we may have difficulty transferring our profits or capital from foreign operations to other countries where such funds could be more profitably deployed;
- increased shipping costs, disruptions in shipping or reduced availability of freight transportation;
- foreign governments may nationalize private enterprises;
- we may experience unexpected adverse changes in export duties, quotas and tariffs and difficulties in obtaining export licenses;
- intellectual property rights may be more difficult to enforce;
- our business and profitability in a particular country could be affected by political or economic repercussions on a domestic, country specific or global level from terrorist activities and the response to such activities;
- we may be affected by unexpected adverse changes in foreign laws or regulatory requirements;
- and
- unanticipated events, such as geopolitical changes, could adversely affect these operations.

Our success as a global business will depend, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions by developing, implementing and maintaining policies and strategies that are effective in each location where we do business.

We are exposed to currency exchange rate changes that impact our profitability.

We are exposed to currency exchange rate risk through our U.S. and non-U.S. operations. Fluctuations in currencies of other countries, especially the euro, may materially affect our operating results. For example, changes in currency exchange rates may affect the relative prices at which we and our competitors sell products in the same region and the cost of materials used in our operations. A substantial portion of our net sales and assets are denominated in currencies other than the U.S. dollar. When the U.S. dollar strengthens against non-U.S. currencies, at a constant level of business, our reported non-U.S. sales, earnings, assets and liabilities are reduced because the non-U.S. currencies translate into fewer U.S. dollars.

We incur a currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or a sales transaction using a currency different from the operating subsidiary's functional currency. Given the

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volatility of exchange rates, we may not be able to manage our currency transaction risks effectively, or volatility in currency exchange rates may expose our financial condition or results of operations to a significant additional risk. Our ability to use tax deductions to reduce future tax payments may be limited if there is a change in ownership of Grace or if Grace does not generate sufficient U.S. taxable income.

Our ability to use future tax deductions, including net operating losses and deductions for the payments contemplated in the Joint Plan (including the deferred payments), may be limited by Section 382 of the Internal Revenue Code of 1986, as amended, if we undergo an ownership change as a result of future changes in the ownership of outstanding Grace common stock. In addition, our ability to use future tax deductions is dependent on our ability to generate sufficient future taxable income in the U.S. 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, our 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.

We may be subject to claims of infringement of the intellectual property rights of others, which could hurt our business.

From time to time, we face infringement claims from our competitors or others alleging that our processes or products infringe on their proprietary technologies. Any claims that our products or processes infringe the intellectual property rights of others, regardless of the merit or resolution of the claims, could cause us to incur significant costs in responding to, defending and resolving the claims, and may divert the efforts and attention of our management and technical personnel from our business. If we are found to be infringing on the proprietary technology of others, we may be liable for damages, and we may be required to change our processes, redesign our products, pay others to use the technology or stop using the technology or producing the infringing product. Even if we ultimately prevail, the existence of the lawsuit could prompt our customers to switch to products that are not the subject of infringement suits.

While Grace is in bankruptcy, we are not permitted to pay dividends on Grace common stock.

We are not permitted to pay dividends on or repurchase shares of Grace common stock while we are in bankruptcy. Following our emergence from bankruptcy, we expect our Board of Directors to make a determination as to whether or not we will pay cash dividends and/or repurchase shares of Grace common stock. Until we commence paying dividends, investors in Grace common stock will generally only obtain an economic benefit from their shares by selling them.

### **INDUSTRY RISKS**

The length and depth of product and industry business cycles in our segments may result in periods of reduced sales and operating margins, and operating losses, particularly in our Grace Construction Products operating segment. Our operating segments are sensitive to the cyclical nature of the industries they serve. Our construction business is cyclical in response to economic conditions and construction demand and is also seasonal and dependent on favorable weather conditions, with a decrease in construction activity during the winter months. The U.S. residential and global commercial construction industries have experienced a significant downturn in recent years. Additionally, the uncertainty surrounding the euro and the European debt crisis have significantly affected construction spending in Europe. As a result, we have experienced reduced demand for our specialty construction products and a continuation of this downturn could result in a further reduction of sales and operating margins as well as potential impairments in our Grace Construction Products segment.

Prices for certain raw materials and energy are volatile; we may not be able to pass through increases in costs for raw materials and energy or maintain our current pricing levels, which may hurt our profitability.

We use petroleum-based materials, metals, natural gas and other materials in the manufacture of our products. Prices for these are volatile and can have a significant effect on our pricing, sales, manufacturing and supply chain strategies as we seek to maximize our profitability. In 2010 and 2011, the price of the rare earth metals used in many of our FCC catalysts increased substantially. In response, we took actions designed to mitigate the effect of these higher prices,

including implementing surcharges on the affected products, the introduction of new

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products with low and no rare earth content, and other manufacturing and supply chain actions. In the 2011 third quarter, rare earth prices reached a peak and have since declined significantly. We continue to adjust our pricing, sales, manufacturing, and supply chain strategies to maximize our profitability based on lower rare earth prices. Our ability to successfully adjust strategies in response to volatile raw material and energy prices is a significant factor in maintaining or improving our profitability. If we are unable to successfully adjust our strategies in response to volatile prices, such volatility could have a negative effect on our sales and earnings in future periods.

A substantial portion of our raw materials are commodities whose prices fluctuate as market supply and demand fundamentals change.

We attempt to manage exposure to price volatility of major commodities through:

• long-term supply contracts;

• contracts with customers that permit adjustments for changes in prices of commodity-based materials and energy;

• forward buying programs that layer in our expected requirements systematically over time; and

• limited use of financial instruments.

Although we regularly assess our exposure to raw material price volatility, we cannot always predict the prospects of volatility and we cannot always cover the risk in a cost effective manner.

We have a policy of maintaining, when available, multiple sources of supply for raw materials. However, certain of our raw materials may be provided by single sources of supply. We may not be able to obtain sufficient raw materials due to unforeseen developments that would cause an interruption in supply. Even if we have multiple sources of supply for raw materials, these sources may not make up for the loss of a major supplier.

We spend large amounts of money for environmental compliance in connection with our current and former operations.

As a manufacturer of specialty chemicals and specialty materials, we are subject to stringent regulations under numerous U.S. federal, state, local and foreign environmental, health and safety laws and regulations relating to the generation, storage, handling, discharge, disposition and stewardship of hazardous wastes and other materials. We have expended substantial funds to comply with such laws and regulations and have established a policy to minimize our emissions to the environment. Nevertheless, legislative, regulatory and economic uncertainties (including existing and potential laws and regulations pertaining to climate change) make it difficult for us to project future spending for these purposes and if there is an acceleration in new regulatory requirements, we may be required to expend substantial additional funds to remain in compliance.

We work with dangerous materials that can injure our employees, damage our facilities and disrupt our operations. Some of our operations involve the handling of hazardous materials that may pose the risk of fire, explosion, or the release of hazardous substances. Such events could result from terrorist attacks, natural disasters, or operational failures, and might cause injury or loss of life to our employees and others, environmental contamination, and property damage. These events might cause a temporary shutdown of an affected plant, or portion thereof, and we could be subject to penalties or claims as a result. A disruption of our operations caused by these or other events could have a material adverse effect on our results of operations.

Some of our employees are unionized, represented by workers' councils or employed subject to local laws that are less favorable to employers than the laws in the United States.

As of December 31, 2012, we had approximately 6,500 global employees. Approximately 750 of our approximately 2,600 U.S. employees are unionized. In addition, a large number of our employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws in the United States. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, most of our employees in Europe are represented by workers' councils that have co-determination rights on any changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure our workforce. A strike, work stoppage or slowdown by our employees or significant dispute with our employees, whether or not related to these negotiations, could result in a significant disruption of our operations or higher ongoing labor costs.



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## Item 1B. UNRESOLVED STAFF COMMENTS

None.

## Item 2. PROPERTIES

We operate manufacturing plants and other facilities (including office, warehouse, labs and other service facilities) throughout the world. Some of these plants and facilities are shared by our operating segments. We own all of our major manufacturing plants. We consider our major operating properties to be in good operating condition and suitable for their current use. We believe that, after taking planned expansion into account, the productive capacity of our plants and other facilities is generally adequate for current operations. The table below summarizes our facilities by operating segment and region:

|                        | Number of Facilities* |                              |              |               |  | Total |
|------------------------|-----------------------|------------------------------|--------------|---------------|--|-------|
|                        | North America         | Europe Middle<br>East Africa | Asia Pacific | Latin America |  |       |
| Catalysts Technologies | 8                     | 3                            | 1            | —             |  | 12    |
| Materials Technologies | 6                     | 10                           | 9            | 4             |  | 29    |
| Construction Products  | 18                    | 18                           | 20           | 8             |  | 64    |

\* Shared facilities are counted in all applicable operating segments.

Our largest Catalysts Technologies facilities are located in Baltimore, Maryland; Lake Charles, Louisiana; and Worms, Germany.

Our largest Materials Technologies facilities are located in Baltimore, Maryland, and Worms, Germany.

Our largest Construction Products facilities are located in Cambridge, Massachusetts, and Mount Pleasant, Tennessee.

Because this operating segment's products generally have short shelf lives and must be delivered to numerous job sites, Construction Products requires a greater number of facilities to service our customers than Catalysts Technologies and Materials Technologies. Also, these facilities are generally smaller and less capital intensive than our Catalysts Technologies and Materials Technologies facilities. For information on our net properties and equipment by region and country, see disclosure set forth in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 20 (Operating Segment Information) to our Consolidated Financial Statements, which disclosure is incorporated herein by reference.

Our corporate headquarters is in Columbia, Maryland, and we also lease and operate a shared services facility in Manila, Philippines.

## Item 3. LEGAL PROCEEDINGS

## CHAPTER 11 PROCEEDINGS

Disclosure provided in this Report in Item 1 (Business) under the caption "Chapter 11 Filing" and in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 1 (Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies under the caption "Voluntary Bankruptcy Filing"), Note 2 (Chapter 11 Information) and Note 3 (Asbestos-Related Litigation) to the Consolidated Financial Statements is incorporated herein by reference.

## ASBESTOS LITIGATION

Disclosure provided in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 2 (Chapter 11 Information) and Note 3 (Asbestos-Related Litigation) to the Consolidated Financial Statements is incorporated herein by reference.

## ENVIRONMENTAL INVESTIGATIONS AND CLAIMS

Disclosure provided in this Report in Item 1 (Business) under the caption "Environment, Health and Safety Matters" and Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 12

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(Commitments and Contingent Liabilities under the caption "Environmental Remediation") to the Consolidated Financial Statements is incorporated herein by reference.

**SETTLEMENT RELATED TO FORMER PACKAGING AND MEDICAL CARE BUSINESSES**

In September 2000, Grace was named in a purported class action suit filed in California Superior Court for the County of San Francisco alleging that the 1996 reorganization involving a predecessor of Grace and Fresenius Medical Care Holdings, Inc. and the 1998 reorganization involving a predecessor of Grace and Sealed Air Corporation were fraudulent transfers (Abner, et al., v. W. R. Grace & Co., et al.). The suit is alleged to have been brought on behalf of all individuals who then had lawsuits on file asserting personal injury or wrongful death claims against any of the defendants. After Abner, and prior to the Chapter 11 filing, two other similar class actions were filed. These lawsuits have been stayed as a result of Grace's Chapter 11 filing. The Bankruptcy Court authorized the Official Committee of Asbestos Personal Injury Claimants and the Official Committee of Asbestos Property Damage Claimants to proceed with claims against Sealed Air and Fresenius on behalf of Grace's bankruptcy estate. In November 2002, Sealed Air and Fresenius each announced that they had reached agreements in principle with these committees to settle asbestos, successor liability and fraudulent transfer claims related to such transactions. Under the terms of the Joint Plan and the Fresenius Settlement and the Sealed Air Settlement, each settlement, as subsequently revised and subject to certain conditions, Fresenius and Cryovac, Inc., a wholly-owned subsidiary of Sealed Air, would make certain payments upon the effectiveness of the Joint Plan. These payments are described in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 2 (Chapter 11 Information-Plans of Reorganization) to the Consolidated Financial Statements and such description is incorporated herein by reference. These settlements are an integral part of the Joint Plan.

**TAX CLAIMS**

Disclosure provided in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 9 (Income Taxes) to the Consolidated Financial Statements is incorporated herein by reference.

**OTHER CLAIMS RECEIVED PRIOR TO THE CHAPTER 11 CLAIMS BAR DATE**

Disclosure provided in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 2 (Chapter 11 Information under the captions "Plans of Reorganization—Other Claims" and "Claims Filings") to the Consolidated Financial Statements is incorporated herein by reference.

**Item 4. MINE SAFETY DISCLOSURES**

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this Report.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Except as provided below, the disclosure required by this Item appears in this Report in: Item 6 (Selected Financial Data); under the heading "Selected Financial Data" opposite the caption "Other Statistics—Common shareholders of record" in the Financial Supplement; and Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement in Note 16 (Shareholders' Equity) and Note 23 (Quarterly Summary and Statistical Information (Unaudited) opposite the caption "Market price of common stock") to the Consolidated Financial Statements, and such disclosure is incorporated herein by reference.

SHAREHOLDER RIGHTS AGREEMENT

On March 31, 1998, we paid a dividend of one Preferred Stock Purchase Right on each share of Grace common stock. Subject to our prior redemption for \$.01 per right, rights will become exercisable on the earlier of:

• 10 days after an acquiring person, comprised of an individual or group, has acquired beneficial ownership of 20% or more of the outstanding Grace common stock or

• 10 business days (or a later date fixed by the Board of Directors) after an acquiring person commences (or announces the intention to commence) a tender offer or exchange offer for beneficial ownership of 20% or more of the outstanding Grace common stock.

Until these events occur, the rights will automatically trade with the Grace common stock, and separate certificates for the rights will not be distributed. The rights do not have voting or dividend rights.

Generally, each right not owned by an acquiring person:

• will initially entitle the holder to buy from Grace one hundredth of a share of the Grace Junior Participating Preferred Stock, at an exercise price of \$100, subject to adjustment;

• will entitle such holder to receive upon exercise, in lieu of shares of Grace junior preferred stock, that number of shares of Grace common stock having a market value of two times the exercise price of the right; and

• may be exchanged by Grace for one share of Grace common stock or one hundredth of a share of Grace junior preferred stock, subject to adjustment.

Generally, if there is an acquiring person and we are acquired, each right not owned by an acquiring person will entitle the holder to buy a number of shares of common stock of the acquiring company having a market value equal to twice the exercise price of the right.

Each share of Grace junior preferred stock will be entitled to a minimum preferential quarterly dividend payment of \$1.00 per share but will be entitled to an aggregate dividend equal to 100 times the dividend declared per share of Grace common stock whenever such dividend is declared. In the event of liquidation, holders of Grace junior preferred stock will be entitled to a minimum preferential liquidation payment of \$100 per share but will be entitled to an aggregate payment equal to 100 times the payment made per share of Grace common stock. Each share of Grace junior preferred stock will have 100 votes, voting together with the Grace common stock. Finally, in the event of any business combination, each share of Grace junior preferred stock will be entitled to receive an amount equal to 100 times the amount received per share of Grace common stock. These rights are protected by customary antidilution provisions.

The terms of the rights may be amended by the Board of Directors without the consent of the holders of the rights.

The rights, which will remain outstanding under the proposed Joint Plan, expire on March 30, 2018.

This summary of the rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which has been filed with the SEC.

DIVIDENDS ON GRACE COMMON STOCK

We are not permitted to pay dividends on or repurchase shares of Grace common stock while we are in bankruptcy and have not paid dividends since the filing of our bankruptcy petitions in 2001. Following our

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emergence from bankruptcy, we expect our Board of Directors to make a determination as to whether or not we will pay cash dividends and/or repurchase shares of Grace common stock.

**STOCK TRANSFER RESTRICTIONS**

In order to preserve significant tax benefits which are subject to elimination or limitation in the event of a change in control (as defined by the Internal Revenue Code of 1986, as amended) of Grace, the Bankruptcy Court has approved trading restrictions on Grace common stock until the effective date of a plan of reorganization. These restrictions prohibit (without our consent) a person from acquiring more than 4.75% of the outstanding Grace common stock or, for any person already holding more than 4.75%, from increasing such person's holdings. This summary of the stock transfer restrictions does not purport to be complete and is qualified in its entirety by reference to the order of the Bankruptcy Court, which has been filed with the SEC.

Also, in order to preserve these tax assets in the event of a change in control (as defined by the Internal Revenue Code of 1986, as amended) of Grace after emergence from Chapter 11, the Joint Plan provides that under certain circumstances, the Board of Directors would have the authority to impose restrictions on the transfer of Grace common stock with respect to certain 5% shareholders. These restrictions would generally not limit the ability of a person that holds less than 5% of Grace common stock after emergence to either buy or sell stock on the open market.

**Item 6. SELECTED FINANCIAL DATA**

The disclosure required by this Item appears in the Financial Supplement under the heading "Selected Financial Data" which disclosure is incorporated herein by reference.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The disclosure required by this Item appears in the Financial Supplement under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" which disclosure is incorporated herein by reference.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

Our debt obligations, global operations, and our raw materials and energy requirements expose us to various market risks. We use derivative financial instruments to mitigate certain market risks. The following is a discussion of our primary market risk exposures, how those exposures are managed, and certain quantitative data pertaining to our market risk-sensitive instruments.

**Interest Rate Risk**

Interest rate fluctuations directly affect interest expense and cash to be paid out in the form of interest payments on variable-rate debt, and can potentially lead to changes in the market value of the associated variable-rate debt. We have \$500.0 million of outstanding pre-petition variable-rate borrowings under bank credit agreements, and interest is accrued on this debt based on the prime rate. Due to our Chapter 11 filing, interest accrued on pre-petition debt is added to the principal balance. As of December 31, 2012 and 2011, total interest accrued on this debt and added to the \$500.0 million principal was \$437.2 million and \$407.3 million, respectively. If the prime rate were to vary in the near-term by one percentage point, the effect would be to increase or decrease interest expense and accrued interest on outstanding principal by approximately \$9.6 million over the twelve-month period ending December 31, 2013.

We do not currently use derivative instruments to mitigate interest rate risk.

**Currency Exchange Rate Risk**

Because we do business in over 40 countries, our results of operations are exposed to fluctuations in currency exchange rates. We seek to minimize exposure to these fluctuations by matching revenue streams in volatile currencies with expenditures in the same currencies, but it is not always possible to do so. From time to time, we



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use financial instruments such as currency forward contracts, options, or combinations of the two to reduce the risk of certain specific transactions. However, we do not have a policy of hedging all exposures, because management does not believe that such a level of hedging would be cost-effective. We do not hedge translation exposures that are not expected to affect cash flows in the near-term. Significant uses of derivatives to mitigate the effects of changes in currency exchange rates are as follows:

In November 2007, we executed intercompany loans in the aggregate amount of €250 million between our principal U.S. operating subsidiary and a newly established German subsidiary as part of a legal restructuring. In conjunction with the loans, our U.S. subsidiary entered into a series of currency forward contracts in order to fix the dollar/euro exchange rate that will apply to convert the euro principal payments to dollars. The forward contracts are aligned with the anticipated payment dates of the intercompany loans, which extend through November 2013. The total amount outstanding under the intercompany loans was €194.5 million as of December 31, 2012 (approximately \$256.5 million). Currency fluctuations on these loans and the related forward contracts are recorded as components of operating results.

The following tables provide information about our significant currency forward exchange agreements as of December 31, 2012 and 2011, specifically, the notional, or contract, amounts (in millions of U.S. dollars), and weighted average exchange rates (U.S. dollars to euros) by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. The fair values represent the fair value of the derivative contracts, and are presented as other assets or other liabilities and allocated between current and non-current, as appropriate, in the Consolidated Balance Sheets.

| Currency Forward Exchange Agreements | Euro Forward Contracts—December 31, 2012 Expected Maturity |            |
|--------------------------------------|--|------------|
|                                      | Date   | Fair Value |
| Contract amount                      | 2013<br>\$252.5  | \$(4.9)    |
| Average contractual exchange rate    | 1.30   | N/A        |

| Currency Forward Exchange Agreements | Euro Forward Contracts—December 31, 2011 Expected Maturity |         |        |         |            |
|--------------------------------------|--|---------|--------|---------|------------|
|                                      | Date   | 2012    | 2013   | Total   | Fair Value |
| Contract amount                      | 2012   | \$267.7 | \$72.9 | \$340.6 | \$20.1     |
| Average contractual exchange rate    |  | 1.37    | 1.46   | 1.39    | N/A        |

**Commodity Price Risk**

We operate in markets where the prices of raw materials and energy are commonly affected by cyclical movements of the economy and other economic factors. The principal raw materials used in our products include rare earths, molybdenum, sodium silicate, olefins, resins, caustic, aluminum, sodium aluminate, rubber, alumina, nickel, cobalt carbonate, kaolin, gypsum and latices. Natural gas is the largest single energy source that we purchase. These commodities are generally available to be purchased from more than one supplier. In order to minimize the risk of increasing prices on certain raw materials and energy, we use a centralized supply chain organization for procurement in order to improve purchasing activities. We have a risk management committee to review proposals to hedge purchases of raw materials, energy and currency.

We have implemented a risk management program under which our goal is to hedge natural gas and aluminum supply in a way that provides protection against price volatility of the natural gas and aluminum markets. In order to mitigate volatile natural gas and aluminum prices, we have entered into fixed price swaps to hedge a portion of our U.S. natural gas and aluminum requirements.

The following tables provide information about our commodity derivatives. For natural gas commodity derivatives, contract volumes, or notional amounts, are presented in millions of MMBtu (million British thermal units), weighted average contract prices are presented in U.S. dollars per million MMBtu, and the total contract amount and fair value are presented in millions of U.S. dollars. For aluminum commodity derivatives, contract volumes, or notional amounts, are presented in millions of pounds, weighted average contract prices are presented in U.S. dollars per pound, and the total contract amount and fair value are presented in millions of U.S. dollars. The fair values of the

commodity swaps derivative contracts represent the excess of the variable price (market price) over the fixed price (pay price) multiplied by the nominal contract volumes. All commodity derivative instruments mature within twelve months.

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| Type of Contract  | Commodity Derivatives—December 31, 2012 |                        |                       |            |
|-------------------|---|------------------------|-----------------------|------------|
|                   | Contract Volumes                        | Weighted Average Price | Total Contract Amount | Fair Value |
| Natural gas swaps | 2.8                                     | \$3.60                 | \$10.2                | \$(0.3 )   |
| Aluminum swaps    | 3.0                                     | \$0.96                 | \$2.8                 | \$0.1      |

| Type of Contract  | Commodity Derivatives—December 31, 2011 |                        |                       |            |
|-------------------|---|------------------------|-----------------------|------------|
|                   | Contract Volumes                        | Weighted Average Price | Total Contract Amount | Fair Value |
| Natural gas swaps | 3.1                                     | \$4.21                 | \$13.1                | \$(3.3 )   |
| Aluminum swaps    | 3.3                                     | \$1.09                 | \$3.6                 | \$(0.5 )   |

The fair value of commodity swaps derivative contracts is presented as other assets or other liabilities and allocated between current and non-current, as appropriate, in the Consolidated Balance Sheets.

We have also entered into forward contracts for natural gas and aluminum that qualify for the normal purchases and normal sales exception from Accounting Standards Codification ("ASC") 815 "Derivatives and Hedging" as they do not contain net settlement provisions and result in physical delivery of natural gas and aluminum from suppliers.

Therefore, the fair values of these contracts are not recorded in our Consolidated Balance Sheets.

See Note 8 for additional disclosure around market risk.

#### Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The disclosure required by this Item appears in the Financial Supplement which disclosure is incorporated herein by reference.

#### Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

#### Item 9A. CONTROLS AND PROCEDURES

Except as provided below, the disclosure required by this Item appears in the Financial Supplement under the heading "Management's Report on Financial Information and Internal Controls" which disclosure is incorporated herein by reference.

There was no change in Grace's internal control over financial reporting during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, Grace's internal control over financial reporting.

#### Item 9B. OTHER INFORMATION

None.

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## PART III

## Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our directors and executive officers as of December 31, 2012, are listed below. Our Certificate of Incorporation provides for the division of the Board of Directors into three classes, each to serve for a three-year term or until their respective successors are elected. In view of the Chapter 11 filing, the directors are continuing to serve beyond the expiration of their respective terms. Executive officers are elected to serve until the next annual meeting of the Board of Directors or until their respective successors are elected.

| Name and Age*               | Office  | First Elected |
|-----------------------------|---|---------------|
| John F. Akers (78)          | Class II Director                                       | 05/09/97      |
| H. Furlong Baldwin (81)     | Class I Director  | 01/16/02      |
| Ronald C. Cambre (74)       | Class III Director                                      | 09/01/98      |
|                             | Class II Director                                       | 09/08/04      |
| Alfred E. Festa (53)        | Chairman of the Board                                   | 01/01/08      |
|                             | Chief Executive Officer                                 | 06/01/05      |
| Marye Anne Fox (65)         | Class I Director  | 05/10/96      |
| Janice K. Henry (61)        | Class I Director  | 01/18/12      |
| Jeffrey N. Quinn (54)       | Class II Director                                       | 11/07/12      |
|                             | Class I Director  | 11/01/06      |
| Christopher J. Steffen (71) | Lead Independent Director                               | 06/28/12      |
| Mark E. Tomkins (57)        | Class III Director                                      | 09/06/06      |
| D. Andrew Bonham (52)       | Vice President & President, Grace Construction Products | 09/11/07      |
| Hudson La Force III (48)    | Senior Vice President & Chief Financial Officer         | 04/01/08      |
| Gregory E. Poling (57)      | President and Chief Operating Officer                   | 11/03/11      |
| Mark A. Shelnitz (54)       | Vice President, General Counsel & Secretary             | 04/27/05      |
| Pamela K. Wagoner (49)      | Vice President & Chief Human Resources Officer          | 07/13/09      |

\* John J. Murphy and Thomas A. Vanderslice resigned from the Board of Directors and all committees effective February 23, 2012 and June 28, 2012, respectively.

Mr. Akers served as Chairman of the Board and Chief Executive Officer of International Business Machines Corporation from 1985 until his retirement in 1993. He was a director of Lehman Brothers Holdings, Inc. until 2012 and was a director of The New York Times Company and PepsiCo, Inc. until 2007. Mr. Akers brings to the Board his experience as chief executive of a global information technology company and his extensive expertise in corporate leadership, financial management, information technology and global business operations. Mr. Akers also has substantial governance and oversight experience developed as a director of multiple public companies.

Mr. Baldwin served as a director of Mercantile Bankshares Corporation from 1970 to 2003, as Chairman of the Board from 1984 to 2003 and as President and Chief Executive Officer from 1976 to 2001. Mr. Baldwin served as Chairman of NASDAQ OMX Group, Inc. until 2012 and served as a director of Platinum Underwriters Holdings, Ltd. and Allegheny Energy Inc. until 2011. Mr. Baldwin brings to the Board the management and governance knowledge he developed as a banking chief executive and public company board member and his extensive experience in banking and finance including significant knowledge of the business development, acquisitions, capital raising, operations and financial issues facing large corporations. Mr. Baldwin also has substantial governance and oversight experience developed as a director of multiple public companies.

Mr. Cambre is retired Chairman of the Board and Chief Executive Officer of Newmont Mining Corporation. He joined Newmont as Vice Chairman and CEO in 1993 and retired as CEO in 2000 and as Chairman in 2001. Mr. Cambre served as Chairman of the Board of McDermott International, Inc. and as a director of Cliffs Natural Resources Inc. until 2011. Mr. Cambre brings to the Board his extensive background in leadership and management at the most senior level in major corporations, his deep understanding of international business and global energy issues

and his governance and oversight experience developed as a director of multiple public companies.

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Mr. Festa joined Grace in 2003 and was elected Chief Executive Officer in 2005 and Chairman in 2008. He served as President from 2003 to 2011 and Chief Operating Officer from 2003 to 2005. Prior to joining Grace, Mr. Festa was a partner of Morganthaler Private Equity Partners, a venture capital and buyout firm, from 2002 to 2003. From 2000 to 2002, he was with ICG Commerce, Inc., a private company providing on-line procurement services, where he last served as President and Chief Executive Officer. Prior to that, he served as Vice President and General Manager of AlliedSignal's (now Honeywell) performance fibers business. Mr. Festa is a director of NVR, Inc., a publicly held home builder. Mr. Festa brings to the Board his substantial leadership, sales and marketing, international business and venture capital experience. As CEO, Mr. Festa brings to the Board his intimate knowledge of all aspects of Grace's operations and strategy.

Dr. Fox served as Chancellor of the University of California San Diego (UCSD) and Distinguished Professor of Chemistry at that institution from 2004 until her retirement in 2012. She currently serves as Chancellor Emeritus and Distinguished Professor of Chemistry and Biotechnology at UCSD. She was previously Chancellor of North Carolina State University and Distinguished University Professor of Chemistry. Dr. Fox has served as the Co-Chair of the National Academy of Sciences' Government-University-Industry Research Roundtable and she served on President Bush's Council of Advisors on Science and Technology. She has served as the Vice Chair of the National Science Board. Dr. Fox is a director of Bridgepoint Education, Inc. and Red Hat, Inc. and served as a director of Pharmaceutical Product Development, Inc. until 2008 and Boston Scientific Corporation until 2010. With her chemistry background, strong financial and operational experience leading large and successful educational institutions and service as an outside director to public and private boards, Dr. Fox brings to the Board a full understanding of Grace's products and research and development efforts, substantial experience in overseeing corporate management and finance and high-level knowledge of operations and strategic planning for large institutions.

Ms. Henry served as Senior Vice President and Treasurer until 2006 and Chief Financial Officer until 2005 of Martin Marietta Materials, Inc.; after her retirement in 2006, she provided consulting services to Martin Marietta Materials, Inc. until 2009. Ms. Henry is also a director of Cliffs Natural Resources Inc. Ms. Henry served as a director of North American Galvanizing and Coatings, Inc. until its acquisition in 2010 by AZZ Incorporated and as a director and chair of the audit committee of Inco Limited until its acquisition in 2006 by CVRD. Ms. Henry brings to the Board her substantial experience in financial and accounting leadership, including acquisitions and capital structuring, gained as an officer of a major chemicals and materials manufacturer. She also has significant governance and oversight experience from her service on public and private corporate boards.

Mr. Quinn is Chairman and Chief Executive Officer of The Quinn Group LLC, a diversified holding company with investments in the industrial, active lifestyle, and entertainment sectors, and Quinpario Partners LLC, an investment and operating firm in the performance materials and specialty chemical sectors, each of which he formed in July 2012. Mr. Quinn served as President and Chief Executive Officer from 2004 and Chairman from 2006 of Solutia Inc., a global leader in specialty chemicals until its sale in July 2012 to Eastman Chemical Company. Mr. Quinn joined Solutia as an executive officer in January 2003, serving as Senior Vice President, General Counsel, Secretary and, from June 2003, Chief Restructuring Officer. Solutia filed for Chapter 11 bankruptcy protection in December 2003 and emerged from bankruptcy protection in February 2008. Prior to that, Mr. Quinn served as Executive Vice President of Premcor, Inc. and Senior Vice President, General Counsel and Secretary of Arch Coal Inc. Mr. Quinn is also a director of Tronox Limited and MEMC Electronic Materials, Inc. Mr. Quinn brings to the board his extensive senior level executive leadership experience in diverse industries and his broad experience in a wide range of functional areas, including strategic planning, mergers and acquisitions, human resources, and legal and governmental affairs. He also has extensive experience in board processes and governance.

Mr. Steffen most recently served as Vice Chairman of Citicorp and its principal subsidiary, Citibank N.A., until 1996. He is currently a private investor. Mr. Steffen is a director of Viasystems Group, Inc. and Platinum Underwriters Holdings, Ltd. and until 2012, served as a director of Accelrys, Inc. Mr. Steffen has served as Senior Vice President and Chief Financial Officer of Eastman Kodak and Executive Vice President and Chief Financial and Administrative Officer and director of Honeywell. As Lead Independent Director, Mr. Steffen presides at all executive sessions of the Board. With his background as a financial and operational leader with companies with global

operations in various industries, Mr. Steffen brings to the Board his extensive international business expertise and knowledge of financial matters and financial reporting. Mr. Steffen also has substantial governance and oversight experience developed as a director of multiple public companies.

Mr. Tomkins most recently served as Senior Vice President and Chief Financial Officer of Innovene, a petrochemical and oil refining company controlled by BP that is now part of the INEOS Group, from 2005 until 2006.

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He served as Chief Financial Officer of Vulcan Materials Company from 2001 to 2005 and CFO of Great Lakes Chemical (now Chemtura) from 1998 to 2001. Prior to joining Great Lakes Chemical, Mr. Tomkins held various mid- and upper-level financial positions with AlliedSignal (now Honeywell) and Monsanto Company. Mr. Tomkins is a certified public accountant. Mr. Tomkins is a director of Elevance Renewable Sciences Inc., a privately held renewable polymer and energy company and, until 2012, he served as a director of CVR Energy, Inc. He is currently a corporate consultant and private investor. With his background as a Chief Financial Officer of multiple public companies and an auditor, Mr. Tomkins brings to the Board his intimate knowledge of the global chemicals and petroleum industry and his experience overseeing finance and business development in major corporations. Mr. Tomkins also has substantial governance and oversight experience developed as a director of multiple public companies.

Messrs. Bonham, Poling, and Shelnitz have been actively engaged in Grace's business for the past five years.

Mr. La Force joined Grace in 2008 as Senior Vice President and Chief Financial Officer. Prior to joining Grace, he was Chief Operating Officer and Senior Counselor to the Secretary at the U.S. Department of Education. Prior to entering public service in 2005, Mr. La Force held general management and financial management positions of increasing responsibility at Dell Inc. and AlliedSignal (now Honeywell). Mr. La Force is a member of the advisory board of Madison Capital Partners, a Chicago-based private equity firm.

Ms. Wagoner joined Grace in 2009 as Vice President and Chief Human Resources Officer. From 2003 until she joined Grace, she was Senior Vice President, Human Resources at Host Hotels & Resorts, Inc.

**Audit Committee**

We have a standing Audit Committee established in accordance with the provisions of the Securities Exchange Act of 1934, as amended. The Committee members are John F. Akers, H. Furlong Baldwin, Ronald C. Cambre, Marye Anne Fox, Janice K. Henry, Jeffry N. Quinn, Christopher J. Steffen and Mark E. Tomkins, each of whom meets the independence standards of the SEC and New York Stock Exchange. Mr. Tomkins serves as Chair of the Audit Committee. The Board of Directors has determined that all Audit Committee members are audit committee financial experts as defined by SEC regulations. A complete description of the responsibilities of the Audit Committee is set forth in the Grace Audit Committee Charter which is available on the Internet at [www.grace.com/About/Leadership/Governance/](http://www.grace.com/About/Leadership/Governance/).

**Other Committees**

We have standing Nominating and Governance, Compensation and Corporate Responsibility Committees. The members of each of these committees are John F. Akers, H. Furlong Baldwin, Ronald C. Cambre, Marye Anne Fox, Janice K. Henry, Jeffry N. Quinn, Christopher J. Steffen and Mark E. Tomkins, each of whom meets the independence standards of the New York Stock Exchange. Mr. Steffen serves as Chair of the Nominating and Governance Committee, Mr. Akers serves as Chair of the Compensation Committee and Dr. Fox serves as Chair of the Corporate Responsibility Committee. A complete description of the responsibilities of the Board committees is set forth in their respective committee charters which are available on the Internet at [www.grace.com/About/Leadership/Governance/](http://www.grace.com/About/Leadership/Governance/).

**Section 16(a) Beneficial Ownership Reporting Compliance**

Under Section 16 of the Securities Exchange Act of 1934, as amended, our directors, certain of our officers, and beneficial owners of more than 10% of the outstanding Grace common stock are required to file reports with the SEC concerning their ownership of and transactions in Grace common stock or other Grace securities; these persons are also required to furnish us with copies of these reports. Based upon the reports and related information furnished to us, we believe that all such filing requirements were complied with in a timely manner during and with respect to 2012.

**Code of Ethics for Principal Officers**

The Board of Directors and the Audit Committee have adopted Business Ethics and Conflicts of Interest policies, which apply to all of our directors, officers, and employees, including our principal officers. These policies are accessible through our Internet website, [www.grace.com/About/Leadership/Governance/](http://www.grace.com/About/Leadership/Governance/), and are available in hard copy, free of charge, by contacting Grace Shareholder Services at 410-531-4167. We granted no waivers to these policies during 2012. We intend to promptly post on our website any amendments or waivers to these policies





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affecting any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

## Item 11. EXECUTIVE COMPENSATION

## Compensation Discussion and Analysis

## Executive Summary

The principle components of pay under our executive compensation program are annual base salary, annual cash incentive awards and long-term incentive awards, which consisted solely of stock options in 2012. We use this mix of fixed and variable pay components with different payout forms (cash and stock options) to reward annual and sustained performance.

The measures used by the Grace Compensation Committee to assess our performance for purposes of executive officer annual compensation are based on our annual operating plan goals and are directly tied to the pay outcomes of our executive officers. For the 2012 Annual Incentive Compensation Plan (AICP), we used the following metrics to quantify performance:

**Adjusted Earnings Before Interest and Taxes (EBIT) (weighted 75%)** This metric is the primary performance measure for the AICP and has been over the past several years.

**Working Capital Days (weighted 25%)** This metric measures the change in the average Working Capital Days for the three months ending December 31, 2012, from the average Working Capital Days for the prior year quarter. Working Capital Days is the sum of the average days that accounts receivable from sales are outstanding before collection and the average days inventory is held before sale less the average days accounts payable are outstanding before payment. This is a new performance measure in the AICP, replacing Adjusted Operating Cash Flow. This metric was added to assess operational excellence and increased cash flow as Grace continues to integrate its operations on a global basis. This is the only change we made to the AICP for 2012.

The 2012 AICP targets are set forth below:

|                             | 2012 AICP<br>Threshold<br>Performance | 2012 AICP<br>Target<br>Performance | 2012 AICP<br>Maximum<br>Performance | 2012<br>Actual<br>Performance |
|-----------------------------|---------------------------------------|------------------------------------|-------------------------------------|-------------------------------|
| Adjusted EBIT (in millions) | \$420.5                               | \$525.6                            | \$709.6                             | \$517.4                       |
| Working Capital Days        | 64.2                                  | 53.5                               | 34.8                                | 58.6                          |

Based on our business model and growth initiatives, we believe these measures best reflect our ability to profitably grow our businesses and maximize operational efficiency and cash flow. They also allow us to provide meaningful incentives that are competitive in our industry, encouraging our executives to drive sustained results and long-term shareholder value.

## CEO Pay At-A-Glance

Mr. Festa's Total Direct Compensation (TDC) for 2012 was \$6,658,195, a decrease of 28.9% over last year. The chart below shows the components of pay awarded compared with the prior year. For more details about the structure of Mr. Festa's compensation, see "Summary Compensation Table."

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| Compensation Element              | 2012<br>(\$) | 2011<br>(\$) | Percentage Increase<br>(Decrease)<br>in Compensation<br>Element<br>(%) |
|-----------------------------------|--------------|--------------|--|
| Base Salary                       | 975,000      | 968,500      | 0.7  |
| Annual Cash Incentive             | 848,250      | 1,350,000    | (37.2)   |
| Long-term Cash Incentive          | 1,499,985    | 2,156,005    | (30.4)   |
| Fair Market Value of Option Grant | 2,381,400    | 4,087,685    | (41.7)   |
| Increase in Pension Value         | 798,000      | 646,000      | 23.5   |
| Other Compensation                | 155,560      | 157,805      | (1.4)  |
| Total                             | 6,658,195    | 9,365,995    | (28.9)   |

## Overview

The Board of Directors has designated six of our officers (including the five executive officers named in the Summary Compensation Table) as executive officers. The executive officers include our Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO) and vice presidents in charge of principal functions or who have policy-making authority. The Board of Directors has delegated authority for approving and administering the compensation plans for executive officers and other members of senior management to the Compensation Committee. The Board has appointed all of the independent members of the Board to serve as members of the Compensation Committee.

A complete description of the responsibilities of the Compensation Committee, referred to as the committee in this Compensation Discussion and Analysis, is set forth in our Compensation Committee Charter, which is available on the Internet at [www.grace.com/About/Leadership/Governance/](http://www.grace.com/About/Leadership/Governance/). The committee and the Board review the charter annually and revise it as necessary.

The committee is responsible for reviewing and approving the compensation of all executive officers, including:

- base salary;
- annual incentive compensation;
- long-term incentive compensation;
- employment agreements;
- severance arrangements;
- change-in-control agreements; and
- any special or supplemental benefits not generally available to salaried employees.

The committee also reviews and approves all corporate goals and objectives used in determining the incentive compensation of each executive officer.

The committee receives advice and legal and administrative assistance from our human resources department, legal services group and the Board's outside counsel in meeting its responsibilities. The committee also has authority to retain other outside advisors. During 2012, the committee retained the services of Towers Watson, a human resources consulting firm, after reviewing its independence from management, and we expect the committee to continue working with Towers Watson during 2013. Specific services provided by Towers Watson to the committee during 2012 included:

- participation in selected committee meetings;
- preparation of market compensation data for executives and outside directors; and
- input on current market trends and practices.

The committee expects Towers Watson and our executive officers, including our CEO, our General Counsel and our Chief Human Resources Officer, and their respective subordinates, to meet, exchange information and otherwise cooperate in the performance of their respective duties outside committee meetings.



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## Compensation Elements

The following table outlines the major elements of compensation in 2012 for the executive officers named in the Summary Compensation Table:

| Compensation Element                                 | Definition  | Rationale   |
|--|---|---|
| Base Salary  | Fixed cash compensation paid twice monthly  | Payment for completion of day-to-day responsibilities   |
| Annual Incentive Compensation Plan                   | Variable cash compensation earned by annual personal performance and achievement of pre-established annual corporate financial performance goals  | Builds accountability for achieving annual financial results and personal performance goals   |
| Long-Term Incentive Compensation Plan (Cash-Based)*  | Variable cash compensation that is earned by achievement of pre-established three-year corporate financial performance goals  | Builds accountability for achieving sustained financial results<br>Encourages retention   |
| Long-Term Incentive Compensation Plan (Equity-Based) | Equity compensation with staggered vesting that increases in value with increases in share price  | Aligns long-term interests of executive officers and shareholders<br>Encourages retention   |
| U. S. Defined Contribution Retirement Plans          | Savings and Investment Plan (401(k))—Standard tax-qualified defined contribution retirement benefit subject to limitations on compensation and benefits under the Internal Revenue Code | Provides U.S. employees with opportunity to save for retirement on tax-advantaged basis with matched contributions from Grace   |
|  | Savings and Investment Plan Replacement Payment Plan (nonqualified)   | Highly-paid U.S. employees made eligible for the same level of Grace match as all other participants in the Savings and Investment Plan notwithstanding Internal Revenue Code limitations |
| U. S. Defined Benefit Retirement Plans               | Pension Plan—Standard tax-qualified pension plan subject to limitations on compensation and benefits under the Internal Revenue Code  | Provides U.S. employees with retirement income  |
|  | Supplemental Executive Retirement Plan(nonqualified)  | Highly-paid U.S. employees made eligible for the same benefit formula as all other participants in the Pension Plan notwithstanding Internal Revenue Code limitations                     |

\* Eliminated in 2011, final payments in March 2013.

## Executive Compensation Philosophy and Objectives

The key objective of the Grace executive compensation program is to help achieve the business objectives of the Board of Directors by enabling us to compete effectively with other firms in attracting, motivating and retaining executives. The committee intends the incentive compensation portion of the program to align closely the financial interests of our executives with those of our shareholders and other stakeholders (including creditors and others with an interest in the Chapter 11 proceedings as required by the Bankruptcy Code). Because senior executives have a substantial ability to influence business success, the committee believes that the portion of compensation that is at-risk based on corporate performance should increase as the level of responsibility of the executive increases. The committee also expects the executive compensation program to be consistent with a culture of ethical conduct,

personal integrity and compliance with our policies and applicable law. We require executives to set an example for our employees and our other business associates in emphasizing the Grace Core Values in their daily business conduct. The Grace Core Values consist of a commitment to teamwork, performance, integrity, speed and innovation, which, with our overall commitment to safety, are the foundation of our corporate culture.

Our executive compensation program is designed to reward executives for the achievement of corporate, operating segment and functional goals and objectives, taking into account both individual performance and contributions to our overall success. The individual performance evaluation is based on the committee's assessment of an executive officer's leadership, technical skill, management and operational performance, and potential to contribute to our future success. In making this assessment, the committee relies upon its intimate familiarity with each executive officer and his or her performance that has resulted from each executive officer's attendance and regular presentations at board meetings. In addition, since the number of executive officers is small, the committee is able to spend considerable time with each of them outside committee meetings. In evaluating executive officers other than the CEO, the committee receives substantial input from the CEO. The CEO proposes compensation levels for the other executive officers and, although not a member of the committee, attends committee meetings and participates in committee deliberations regarding compensation levels for the other executive officers. The CEO is excused from deliberations regarding his own compensation and from the "executive

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session" portion of each meeting when the committee meets alone or alone with its outside advisors. The CEO is also excused when the committee meets separately with internal advisors from our human resources group. Periodically the committee consults with Towers Watson for an assessment of the competitiveness of our executive officer compensation relative to certain benchmark companies in the chemicals, materials and specialty chemicals industry that the committee deems our peer group for compensation purposes, and relative to certain broad industry data. The committee selected the benchmark companies as our compensation peer group based upon their size and global scope, the quality of their executive talent, the likelihood that we compete with them for executive talent and the availability of public information regarding their compensation practices. The committee periodically reviews the composition of our compensation peer group to ensure that it remains relevant. For 2012 compensation, the peer group consisted of:

|   |                           |
|---|---------------------------|
| Albemarle Corporation                   | Olin Corp.                |
| Cabot Corp.                             | OM Group Inc.             |
| Celanese Corporation                    | PolyOne Corporation       |
| Cytec Industries Inc.                   | Rockwood Holdings, Inc.   |
| Eastman Chemical Co.                    | RPM International Inc.    |
| Ecolab Inc.*                            | A. Schulman, Inc.         |
| Ferro Corp.                             | Sigma-Aldrich Corporation |
| FMC Corp.                               | Solutia Inc.*             |
| Georgia Gulf Corp.                      | The Valspar Corporation   |
| International Flavors & Fragrances Inc. | TPC Group Inc.*           |
| Nalco Holding Co.*                      | Westlake Chemical Corp.   |

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\*Nalco Holding Co., Solutia Inc. and TPC Group Inc. were removed from the Peer Group during 2012 because they are no longer stand-alone companies and Ecolab Inc. was removed during 2012 because of a large acquisition. The broad industry data that the committee generally reviews is included in studies produced by Towers Watson, Mercer and AonHewitt (all of whom are also nationally recognized compensation and benefits consulting firms) for any given compensation year. The committee used the chemicals and non-durable goods sections of these surveys. These data are used as a secondary reference for executive officer compensation, largely as a check on the peer group compensation levels, as well as to determine if there are any identifiable non-industry trends in compensation. Once the committee has completed an evaluation of an executive officer's overall performance, the committee reviews the executive officer's existing compensation. This information, presented in the form of a "tally sheet," reflects all compensation payable or potentially payable to the executive officer under our compensation plans. For each executive officer, the committee compares the tally sheet to the peer group information provided by Towers Watson and the broad industry data to provide context to its compensation decisions. The committee then makes the compensation determination based on its individual evaluation of each executive officer. In setting an executive officer's compensation level the committee does not target a specific percentile at which pay levels should be set, as the members believe the market for executive talent includes a wide range of practices. Instead, the committee reviews the distribution of peer group pay practices and broad industry data and determines the appropriate positioning of each executive officer's pay based on factors including, but not limited to, the roles and responsibilities of the executive officer, the executive officer's performance, experience, the depth of the market data available and internal equity with other Grace salaried employees. In the case of incentive compensation, if performance objectives are exceeded, the committee believes that incentive compensation should be at or above targeted levels and when performance objectives are not achieved, incentive compensation should be below targeted levels. Although these factors apply to Mr. Festa, his compensation is also subject to the terms of his employment agreement. Grace executives are generally eligible for annual compensation reviews. As a result of the Chapter 11 filing, we have not held an annual meeting of shareholders and, accordingly, have not obtained a say-on-pay advisory vote of the shareholders under Section 14A of the Securities Exchange Act of 1934, as amended. At such time as we hold say-on-pay advisory votes, we expect the committee will consider the results of such votes in making future compensation decisions for the named executive officers.





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## Chief Executive Officer

The committee's process for determining the compensation of the CEO is similar to the process it applies to other executive officers. The committee reviews and approves corporate goals and objectives used in determining the compensation of the CEO. The committee evaluates the CEO's performance in light of those goals and objectives and has sole authority to determine the CEO's compensation based on this evaluation subject to the terms of his employment agreement. The terms of the CEO's employment agreement are discussed below in this Compensation Discussion and Analysis and under the Summary Compensation Table and Potential Payments Upon Termination or Change-In-Control Table. The CEO plays no part in the committee's deliberations or approval of his compensation. The committee believes the CEO's compensation should be higher than the compensation of other executive officers because the CEO is uniquely positioned to influence all aspects of our operations and performance and the resulting return to our shareholders. In addition, the committee believes there exists a robust competition for effective CEO talent among companies of our size and, in this environment, a competitive compensation package is essential for retention. The committee's view is consistent with the practices of the compensation peer group companies and the broad industry data that it has reviewed.

## Compensation Elements

## Base Salary

In 2012, the committee did not implement a general salary increase for executive officers named in the Summary Compensation Table, referred to herein as named executive officers.

| Named Executive Officer | Base Annual Salary               | Base Annual Salary               | Percentage Increase                  |
|-------------------------|----------------------------------|----------------------------------|--------------------------------------|
|                         | Rate as of<br>12/31/2012<br>(\$) | Rate as of<br>12/31/2011<br>(\$) | in Base Annual<br>Salary Rate<br>(%) |
| A. E. Festa             | 975,000                          | 975,000                          | —                                    |
| H. La Force III         | 430,000                          | 430,000                          | —                                    |
| G. E. Poling            | 550,000                          | 550,000                          | —                                    |
| D. A. Bonham            | 410,000                          | 410,000                          | —                                    |
| M. A. Shelnitz          | 375,000                          | 375,000                          | —                                    |

## Annual Incentive Compensation

The Annual Incentive Compensation Plan, or AICP, is a cash-based pay-for-performance incentive plan. Its purpose is to motivate and reward upper- and middle-level employees, including executive officers, for their contributions to our performance. The amount of an individual incentive award payment under the AICP is based upon:

- the individual's AICP target amount;
- the funding of the AICP incentive pool based on our performance; and
- the individual's personal performance.

The Board of Directors established our 2012 AICP targets on February 23, 2012, after considering its objectives for the company and the general economic environment in which we expected to be operating during the year. As in 2011, the Board of Directors focused on the objective of growing earnings commensurate with the business opportunities we have and the investments we have made. In 2012, the Board of Directors also focused on improving our working capital performance.

The committee established objective annual incentive targets based on the performance targets in our 2012 operating plans. The committee evaluated the difficulty of achieving the performance targets in light of uncertainties in the general economy and the chemicals industry and ongoing weakness in our construction products business, and concluded that achievement of such targets would constitute good to outstanding Grace financial performance.

While emphasizing both earnings and working capital performance in setting our annual incentive compensation plan goals, the committee gave substantially more weight to earnings performance than working

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capital performance in order to maintain some level of consistency with prior years and because the committee believes that for 2012, earnings performance is a more important indicator of Grace's business performance. For earnings, the committee continued with the Adjusted EBIT metric (as such term is described in this Report in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) in the Financial Supplement) used in 2010 and 2011.

For working capital, the committee established a new metric, "Working Capital Days." This metric measures the change in the average Working Capital Days for the three months ending December 31, 2012, from the average Working Capital Days for the prior year quarter. For purposes of this calculation, Working Capital Days for the relevant period is the sum of the average number of days that accounts receivable from sales are outstanding before they are collected (DSO) and the average number of days that inventory is held before it is sold (DOH) less the average number of days that accounts payable are outstanding before they are paid (ADP) during the relevant period. Generally, the lower the number of Working Capital Days, the more efficient the business is in operating its plants, generating cash and freeing up capital for other corporate purposes.

These metrics ensure the continuing alignment of the economic interests of our executives with our annual operating plans and the interests of our shareholders and other stakeholders.

The AICP targets for our named executive officers are as follows:

| Named Executive Officer | AICP Target as<br>Percent of<br>Base Salary Paid<br>During 2012 | AICP Target as<br>Percent of<br>Base Salary Paid<br>During 2011 |    |
|-------------------------|---|---|----|
| A. E. Festa             | 100   | % 100   | %  |
| H. La Force III         | 80  | % 80  | %  |
| G. E. Poling            | 90  | % 80  | %* |
| D. A. Bonham            | 80  | % 80  | %  |
| M. A. Shelnitz          | 70  | % 70  | %  |

\* In connection with his promotion to President and Chief Operating Officer, Mr. Poling's AICP Target was increased to 90% of base salary effective November 1, 2011.

Actual awards for executive officers may range from \$0 to an amount equal to 200% of the target amount, based on the factors described above.

The target AICP incentive pool is the sum of the target awards of all participants in the AICP. For 2012, 75% of the available AICP incentive pool was established based on our performance in respect of Adjusted EBIT and 25% on performance in respect of Working Capital Days, which aligns the funded amount of our AICP incentive pool with our actual performance. We refer to the related targets as the Adjusted EBIT Target and the Working Capital Days Target, respectively.

## 2012 AICP Performance Targets

| Adjusted EBIT<br>(75% of Available Incentive Pool)<br>(in \$ millions) | Working Capital Days<br>(25% of Available Incentive Pool)<br>(in days) | Portion of Incentive<br>Pool funded in<br>respect of Target |
|--|--|---|
| Less than 420.5  | Less than 64.2   | —%  |
| 420.5  | 64.2   | 25%   |
| 525.6  | 53.5   | 100%  |
| 709.6 or Greater   | 34.8   | 200%  |

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## 2012 Actual AICP Performance

|   |         |
|---|---------|
| 2012 Actual Adjusted EBIT (75% of Available Incentive Pool) (in millions) | \$517.4 |
| Working Capital Days (25% of Available Incentive Pool) (in days)          | 58.6    |

In setting the actual amount of the AICP incentive pool, the committee has discretion to adjust the performance objectives, adjust the calculation of each performance measure or adjust the size of the AICP incentive pool irrespective of the achievement of performance objectives. The committee believes that AICP participants generally should not benefit from or be penalized by items not considered when the performance targets are set that result in large unexpected variances from annual operating plan assumptions. For 2012, the committee made no changes in the calculation of Adjusted EBIT or Working Capital Days for use in the AICP calculation.

The actual amount of the 2012 AICP incentive pool established in respect of the Adjusted EBIT Target (75% of the available incentive pool) and Working Capital Days Target (25% of the available incentive pool) was determined by applying linear interpolation between the related target amounts specified above in the 2012 AICP Performance Targets table. The total AICP incentive pool established is the sum of these two amounts. As shown in the table below, the calculated funding amount for 2012 was 87% of the aggregate target amounts of the participants.

## 2012 AICP Funding

|   |         |   |
|---|---------|---|
| 2012 Adjusted EBIT (in millions)  | \$517.4 |   |
| Interpolated Portion of 75% of AICP Incentive Pool funded in respect of Adjusted EBIT Target        | 94      | % |
| 2012 Working Capital Days   | 58.6    |   |
| Interpolated Portion of 25% of AICP Incentive Pool funded in respect of Working Capital Days Target | 64      | % |
| Total Portion of Target AICP Incentive Pool funded  | 87      | % |

Actual 2012 AICP payments to the named executive officers are as set forth below:

| Name            | AICP Payment at 87% of Target | Actual AICP Payment |
|-----------------|-------------------------------|---------------------|
| A. E. Festa     | \$848,250                     | \$848,250           |
| H. La Force III | 299,280                       | 299,280             |
| G. E. Poling    | 430,650                       | 430,650             |
| D. A. Bonham    | 285,360                       | 285,360             |
| M. A. Shelnitz  | 228,375                       | 228,375             |

## Long-Term Incentive Compensation (Stock Options)

Our Long-Term Incentive Plans, or LTIPs, are designed to motivate and reward our key employees, including our named executive officers, for their contributions to our performance over a multi-year period and align their financial interests with those of our shareholders and other stakeholders by making a significant portion of their total compensation variable and dependent upon our sustained financial performance.

For 2012, the committee determined that stock options were the most appropriate vehicle to achieve these objectives. Stock options and other equity awards provide direct alignment between the interests of our executives and shareholders. In addition, the value of equity is 100% variable and dependent on creating sustained shareholder value. Finally, equity awards are simple to understand by recipients and do not require establishing long-term performance goals, which is very difficult in light of continued economic uncertainty in our markets. Target award values were determined by the CEO for each option recipient with the exception of the CEO, for whom the committee developed a desired award value. These target award values were determined by reviewing current market compensation data (as discussed earlier in this report), historical long-term incentive target values, the total number of available options to be granted and internal pay equity considerations. Aggregate stock option awards under the 2012 LTIP were approved by the Bankruptcy Court.

In determining the value of stock option awards, the committee used an analysis of stock option value based on an adjusted Black-Scholes option pricing model and reviewed this analysis with their independent consultant,



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Towers Watson. The committee approved the stock option grants included in the 2012 LTIP on June 28, 2012, after approval of the 2012 LTIP by the Bankruptcy Court on June 18, 2012. The exercise price of the options was \$48.45, which was the average of the high and low trading prices of Grace common stock on the New York Stock Exchange on June 28, 2012. The term of the options is five years and they vest over three years in equal annual installments commencing the year after the date of grant.

### Pension Plan/Supplemental Executive Retirement Plan

As described below under "Pension Benefits," payments under our tax-qualified pension plan are calculated using annual compensation, including base salary and AICP awards, and years of credited Grace service. For 2012, federal income tax law limits to \$250,000 the annual compensation on which benefits under the tax-qualified pension plan may be based. As a result, the committee has implemented a Supplemental Executive Retirement Plan, generally referred to as a SERP, that currently applies to approximately 80 upper level employees, including the executive officers, whose annual compensation exceeds that amount. Under this plan, each such employee will receive the full pension to which that employee would be entitled in the absence of the limitations described above and other limitations imposed under federal income tax law. The SERP is unfunded and is not qualified for tax purposes.

### Savings and Investment Plan/Replacement Payment Plan

We generally offer a tax-qualified 401(k)-type Savings and Investment Plan, or S&I Plan, to employees under which they may save a portion of their annual compensation in investment accounts on a pre- or post-tax basis. We currently match 100% of employee savings under the S&I Plan up to 6% of the employee's base salary and annual incentive compensation. The committee believes that a 401(k)-type plan with a substantial company match that increases (in dollar amount, not percentage of compensation) with the level of participation in the plan and increases in the employee's annual compensation is an effective recruiting and retention tool for our employees, including our executive officers. For 2012, federal income tax law limits the total contributions, which include an employee's contribution plus the employer's matching contributions, that can be made to an employee's 401(k) plan account to \$50,000 and qualifying annual compensation for 401(k) plan purposes to \$250,000. As a result, the committee has implemented an S&I Plan Replacement Payment Plan that currently applies to approximately 65 of our employees, including our executive officers, whose annual compensation exceeds that amount. Under this plan, each such employee will receive the full matching payments to which that employee would be entitled in the absence of the limitations described above and other limitations imposed under federal income tax law.

### Executive Personal Benefits

The committee believes that executives generally should not be treated differently than the general employee population when it comes to personal benefits and therefore, the committee has limited executive personal benefits. Executive officers are eligible to participate in the executive physical examination program that offers executives an annual comprehensive physical examination within a compressed time period. Mr. Festa has access to corporate aircraft for reasonable personal travel, though he is responsible for paying income taxes on the value of such travel as determined by the Internal Revenue Service.

### Change-In-Control Severance Agreements

As described below under "Termination and Change-in-Control Arrangements—Change-In-Control Severance Agreements," we have entered into change-in-control severance agreements with each of the named executive officers. The provisions in these agreements are based on competitive practice and are designed to ensure that the executive officers' interests remain aligned with the interests of our shareholders if a potential change in control occurs. Payments under these agreements are triggered by the involuntary termination of the executive officer's employment without cause (including constructive termination caused by a material reduction in his or her authority or responsibility or by certain other circumstances) following a "change in control." A change in control situation often undermines an executive officer's job security, and it is to our benefit and our shareholders' benefit to encourage our executive officers to seek out beneficial transactions and to remain employed through the closing of any transaction, even though their future employment at Grace may be uncertain. The change-in-control severance agreements are designed to reinforce and encourage the continued attention and dedication of the executive officers to their assigned duties without distraction in the face of potentially adverse circumstances arising from the possibility of a change in control of Grace. Certain terms of these agreements are described below under the Potential Payments

Upon Termination or Change-In-Control Table.

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### Severance Arrangements

As described below under "Termination and Change-in-Control Arrangements—Other Executive Officer Severance Arrangements," we have entered into severance agreements with each of the named executive officers, other than Mr. Festa, whose severance arrangements are included in his employment agreement, and Mr. Bonham, whose severance arrangements were established by committee approval. Payments under these arrangements are triggered by involuntary termination of employment under most circumstances. Our severance arrangements are designed to encourage and reinforce the continued attention and dedication of our executive officers to their assigned duties without undue concern regarding their job security. Certain terms of these agreements are described below under the Potential Payments Upon Termination or Change-In-Control Table.

### Executive Salary Protection Plan

As described below under "Termination and Change-in-Control Arrangements—Executive Salary Protection Plan," our Executive Salary Protection Plan provides payments to our named executive officers, or their respective beneficiaries, in the event of their disability or death prior to age 70 while employed by Grace. The plan is designed to encourage the continued attention and dedication of our executive officers to their assigned duties without undue concern regarding their ability to earn a living and support their families in the event of death or disability. Certain terms of this plan are described below under the Potential Payments Upon Termination or Change-In-Control Table.

### Employment Agreements

We have entered into an employment agreement with Mr. Festa pursuant to which he serves as our CEO. Certain terms of this employment agreement are described below under the Summary Compensation Table and Potential Payments Upon Termination or Change-In-Control Table. This agreement was approved by the Bankruptcy Court and was designed to encourage Mr. Festa to continue as our CEO, remain with Grace and work diligently in pursuit of corporate objectives. Mr. Festa's employment agreement includes a minimum salary and AICP target that were negotiated with Mr. Festa and are based on his business experience, his past performance as our CEO and a competitive analysis of the base salary and annual bonus paid to CEOs at the compensation peer group companies. The agreement also provides for severance payments that are designed to encourage and reinforce Mr. Festa's continued attention and dedication to his assigned duties without undue concern regarding his job security.

We have also entered into an employment agreement with Mr. La Force pursuant to which he serves as our CFO. Certain terms of this employment agreement are described below under the Summary Compensation Table and Potential Payments Upon Termination or Change-In-Control Table. This agreement provides for salary and AICP and LTIP targets and includes provisions regarding severance payments. This agreement was negotiated on an arms-length basis prior to the time Mr. La Force joined Grace. The payments required by this agreement were designed to encourage Mr. La Force to join and remain with Grace in lieu of other employment opportunities available to him.

### Deductibility of Executive Compensation

Under the Omnibus Budget Reconciliation Act of 1993, provisions were added to the Internal Revenue Code of 1986, as amended, under Section 162(m) that limit the tax deduction for compensation expense in excess of \$1 million paid to certain executive officers unless such compensation is "performance-based" and satisfies certain other conditions. The committee believes that compensation payable to executive officers should generally meet the conditions required for full deductibility under Section 162(m). Tax deductibility is one criterion the committee considers when establishing compensation plans. The AICP and LTIPs are structured with the intention that the compensation payable thereunder will generally qualify as deductible "performance-based" compensation. While the committee believes that it is important to preserve the ability to structure compensation plans to meet a variety of corporate objectives even if the compensation is not deductible, due to the committee's focus on performance-based compensation plans, the committee expects that, despite its power to exercise positive discretion in establishing payments under the AICP, the vast majority of compensation paid to the named executive officers will be tax deductible.

### Compensation Committee Report

We, the undersigned members of the Compensation Committee of the Board of Directors of Grace, have reviewed Grace's Compensation Discussion and Analysis for 2012 and have discussed it with Grace management. Based on our review and this discussion, we recommend to the Board that the Compensation Discussion and Analysis be included in Grace's Annual Report on Form 10-K.





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COMPENSATION COMMITTEE

John F. Akers, Chair  
H. Furlong Baldwin  
Ronald C. Cambre  
Marye Anne Fox  
Janice K. Henry  
Jeffry N. Quinn  
Christopher J. Steffen  
Mark E. Tomkins

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## Summary Compensation Table

The following table sets forth the compensation we paid for the periods indicated to our Chief Executive Officer, our Chief Financial Officer and each of our other three most highly compensated executive officers who were executive officers as of December 31, 2012, determined by reference to the total compensation earned by such individuals for 2012 (reduced by the amount set forth in the table below under the caption "Change in Pension Value and Nonqualified Deferred Compensation Earnings").

| Name and Principal Position   | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (a) (\$) | Non-Equity Incentive Plan Compensation (\$) |           | Change in Pension Value and Nonqualified Deferred Compensation Earnings(c) (\$) | All Other Compensation (d) (\$) | Total (\$) |
|---|------|-------------|------------|-------------------|------------------------|---|-----------|---|---------------------------------|------------|
|   |      |             |            |                   |                        | AICP(b)                                     | LTIP(b)   |   |                                 |            |
| A. E. Festa<br>Chairman &<br>Chief<br>Executive<br>Officer                            | 2012 | 975,000     | -          | -                 | 2,381,400              | 848,250                                     | 1,499,985 | 798,000   | 155,560                         | 6,658,195  |
|   | 2011 | 968,500     | -          | -                 | 4,087,685              | 1,350,000                                   | 2,156,005 | 646,000   | 157,805                         | 9,365,995  |
|   | 2010 | 936,000     | -          | -                 | 2,660,000              | 1,110,000                                   | 344,110   | 439,000   | 158,112                         | 5,647,222  |
| H. La Force III<br>Senior Vice<br>President &<br>Chief<br>Financial<br>Officer        | 2012 | 430,000     | -          | -                 | 587,990                | 299,280                                     | 309,997   | 170,000   | 53,275                          | 1,850,542  |
|   | 2011 | 430,000     | -          | -                 | 773,333                | 435,000                                     | 352,001   | 119,000   | 50,700                          | 2,160,034  |
|   | 2010 | 415,000     | -          | -                 | 549,733                | 400,000                                     | 75,002    | 82,000  | 54,300                          | 1,576,035  |
| G. E. Poling<br>President &<br>Chief<br>Operating<br>Officer                          | 2012 | 550,000     | -          | -                 | 1,190,700              | 430,650                                     | 382,496   | 1,222,000   | 70,375                          | 3,846,221  |
|   | 2011 | 466,667     | -          | -                 | 1,073,933              | 600,000                                     | 482,502   | 1,017,000   | 61,900                          | 3,702,002  |
|   | 2010 | 442,500     | -          | -                 | 678,305                | 550,000                                     | 100,502   | 733,000   | 63,450                          | 2,567,757  |
| D. A. Bonham<br>Vice<br>President &<br>President<br>Grace<br>Construction<br>Products | 2012 | 410,000     | -          | -                 | 477,740                | 285,360                                     | 324,997   | 247,000   | 47,731                          | 1,792,828  |
|   | 2011 | 410,000     | -          | -                 | 773,333                | 375,000                                     | 384,001   | 205,000   | 58,427                          | 2,205,761  |
|   | 2010 | 402,500     | -          | -                 | 576,333                | 300,000                                     | 78,002    | 129,000   | 53,550                          | 1,539,385  |
| M. A. Shelnitz<br>Vice President,<br>Secretary &<br>General<br>Counsel                | 2012 | 375,000     | -          | -                 | 396,900                | 228,375                                     | 239,998   | 571,000   | 41,875                          | 1,853,148  |
|   | 2011 | 375,000     | -          | -                 | 541,333                | 300,000                                     | 280,001   | 522,000   | 39,000                          | 2,057,334  |
|   | 2010 | 363,750     | -          | -                 | 425,600                | 260,000                                     | 53,251    | 369,000   | 42,825                          | 1,514,426  |

Amount represents the aggregate grant date fair value of options computed in accordance with ASC 718, "Compensation—Stock Compensation". The assumptions used to calculate the compensation expense reported for (a) 2012 are described in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 17 (Stock Incentive Plans) to the Consolidated Financial Statements and are incorporated herein by reference.

(b)

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The 2012 amount consists of payments that we expect to make in March 2013 pursuant to the 2012 Annual Incentive Compensation Plan or AICP and 2010-2012 Long-Term Incentive Plan or LTIP, respectively.

The 2012 amount consists of the aggregate change in the actuarial present value of the individual's accumulated benefit under the Grace Pension Plan and Grace Supplemental Executive Retirement Plan (SERP) from December 31, 2011, to December 31, 2012, assuming a 3.75% discount rate and retirement at age 62 with benefits (c) payable on a straight life annuity basis and other assumptions used for financial reporting purposes under generally accepted accounting principles as described in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 10 (Pension Plans and Other Postretirement Benefits Plans) to the Consolidated Financial Statements as follows:

| Name            | Change in Pension<br>Plan Value<br>(\$) | Change In SERP<br>Value<br>(\$) | Total Change in<br>Pension Value<br>(\$) |
|-----------------|---|---------------------------------|--|
| A. E. Festa     | 83,000                                  | 715,000                         | 798,000                                  |
| H. La Force III | 49,000                                  | 121,000                         | 170,000                                  |
| G. E. Poling    | 240,000                                 | 982,000                         | 1,222,000                                |
| D. A. Bonham    | 70,000                                  | 177,000                         | 247,000                                  |
| M. A. Shelnitz  | 208,000                                 | 363,000                         | 571,000                                  |

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(d) The 2012 amount consists of the following:

| Name            | Personal Benefits*<br>(\$) | S&I Plan Matching Payments<br>(\$) | S&I Plan Replacement Payments<br>(\$) | Liability Insurance<br>(\$) | Total<br>(\$) |
|-----------------|----------------------------|------------------------------------|---------------------------------------|-----------------------------|---------------|
| A. E. Festa     | 14,685                     | ** 15,000                          | 124,500                               | 1,375                       | 155,560       |
| H. La Force III | n/a                        | 15,000                             | 36,900                                | 1,375                       | 53,275        |
| G. E. Poling    | n/a                        | 15,000                             | 54,000                                | 1,375                       | 70,375        |
| D. A. Bonham    | n/a                        | 15,000                             | 32,100                                | 631                         | 47,731        |
| M. A. Shelnitz  | n/a                        | 15,000                             | 25,500                                | 1,375                       | 41,875        |

\* Consists of our aggregate incremental cost of providing personal benefits if the aggregate amount of personal benefits provided to the individual equaled or exceeded \$10,000.

\*\* Consists of personal use of Grace-provided aircraft (\$12,920) and participation in the executive physical examination program (\$1,765).

#### CEO Employment Agreement

Grace and Mr. Festa entered into an employment agreement, effective as of June 1, 2009, pursuant to which Mr. Festa serves as Chairman and Chief Executive Officer of Grace. Mr. Festa is entitled to an initial base annual salary of \$936,000. His targeted award under the Annual Incentive Compensation Plan is 100% of his base salary earned during the applicable year (or greater, as determined by the Board). Under the agreement, Mr. Festa continues to participate in the Grace LTIPs. His 2012 award is described below under "Grants of Plan-Based Awards in 2012." Grace is obligated to indemnify Mr. Festa for all liabilities that he may incur as a result of his performance of his duties as a director, officer or employee of Grace. The agreement also provides for certain payments in the event that Mr. Festa's employment is involuntarily terminated. These severance payments are discussed below under "Potential Payments Upon Termination or Change-In-Control." The description of Mr. Festa's employment agreement in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the agreement, which has been filed with the SEC.

#### CFO Employment Agreement

Grace has entered into an employment agreement with Mr. La Force. Under this agreement, Mr. La Force is entitled to an initial base salary of \$410,000 and to participate in the Annual Incentive Compensation Plan at an initial target award of 75% of base salary. The agreement also provides for certain payments in the event that Mr. La Force's employment is involuntarily terminated. These severance payments are discussed below under "Potential Payments Upon Termination or Change-In-Control." The description of Mr. La Force's employment agreement in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the agreement, which has been filed with the SEC.

#### Grants of Plan-Based Awards in 2012

The following table provides information regarding grants under our Annual Incentive Compensation Plan, or AICP, and Long Term Incentive Plan, or LTIP, to the executive officers named in the Summary Compensation Table during 2012.

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| Name            | Plan               | Option Grant Date | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(a) |                |                 | All Other Option Awards: Number of Securities Underlying Options (#)(c) | Exercise or Base Price of Option Awards (\$/Sh)(d) | Closing Price on Grant Date (\$/Sh) | Grant Date Fair Value of Option Awards (\$)(e) |
|-----------------|--------------------|-------------------|--|----------------|-----------------|---|--|-------------------------------------|--|
|                 |                    |                   | Threshold (\$)(b)  | Target (\$)(b) | Maximum (\$)(b) |   |  |                                     |  |
| A. E. Festa     | 2012 AICP          | n/a               | 243,750  | 975,000        | 1,950,000       | n/a   | n/a  | n/a                                 | n/a  |
|                 | 2012 LTIP (Option) | 6/28/2012         | n/a  | n/a            | n/a             | 162,000   | 48.450   | 48.550                              | 2,381,400                                      |
| H. La Force III | 2012 AICP          | n/a               | 86,000   | 344,000        | 688,000         | n/a   | n/a  | n/a                                 | n/a  |
|                 | 2012 LTIP (Option) | 6/28/2012         | n/a  | n/a            | n/a             | 40,000  | 48.450   | 48.550                              | 587,990  |
| G. E. Poling    | 2012 AICP          | n/a               | 123,750  | 495,000        | 990,000         | n/a   | n/a  | n/a                                 | n/a  |
|                 | 2012 LTIP (Option) | 6/28/2012         | n/a  | n/a            | n/a             | 81,000  | 48.450   | 48.550                              | 1,190,700                                      |
| D. A. Bonham    | 2012 AICP          | n/a               | 82,000   | 328,000        | 656,000         | n/a   | n/a  | n/a                                 | n/a  |
|                 | 2012 LTIP (Option) | 6/28/2012         | n/a  | n/a            | n/a             | 32,500  | 48.450   | 48.550                              | 477,740  |
| M. A. Shelnitz  | 2012 AICP          | n/a               | 65,625   | 262,500        | 525,000         | n/a   | n/a  | n/a                                 | n/a  |
|                 | 2012 LTIP (Option) | 6/28/2012         | n/a  | n/a            | n/a             | 27,000  | 48.450   | 48.550                              | 396,900  |

(a) Actual payments pursuant to the 2012 AICP and final payments pursuant to the 2010-2012 LTIP that we expect to pay in March 2013 have been determined and are reflected in the Summary Compensation Table.

(b) Amounts are based upon base salary actually paid during 2012.

(c) Options are exercisable in one-third increments on June 28, 2013, June 28, 2014, and June 28, 2015.

(d) The exercise price was determined based on the average of the high and low trading prices of Grace common stock on the New York Stock Exchange on the grant date.

(e) The grant date fair value is generally the amount that Grace would expense in its financial statements over the award's service period, but does not include a reduction for forfeitures.

#### 2012 Annual Incentive Compensation Plan (AICP)

The AICP is a cash-based pay-for-performance incentive plan. Awards under the AICP are allocated from the incentive pool, the amount of which is determined by the extent to which business performance objectives are achieved. The committee has discretion to establish or increase the size of the incentive pool even if performance objectives are not achieved. Once the incentive pool is established, an executive officer's award payment is determined based on the individual's target award, performance and other factors determined by the committee. In order to receive an AICP award payment for a specific calendar year, employees generally must be actively employed by Grace through the payout date, which is typically in March of the following year. See "Potential Payments Upon Termination or Change-In-Control—Termination and Change-in-Control Arrangements" for a description of the circumstances under which AICP payments would be made upon termination of an executive's employment with Grace.

#### Long-Term Incentive Plan (LTIP)

Our long-term incentive plans are multi-year, pay-for-performance incentive plans. Awards under our 2010-2012 LTIP consisted of a cash-based award and an award of stock options under our 2000 Stock Incentive Plan. In 2011, in order to better align the interests of our executives with those of our shareholders and to align our LTIP to market practice, we eliminated the cash component of our LTIP. Awards under our 2012 LTIP consist entirely of an award of stock options under our 2011 Stock Incentive Plan. We intend to make final payments under the 2010 Cash LTIP, however, which payments are described below.

Cash-based awards under the 2010-2012 LTIP are payable based on the extent to which we achieve a specified compound annual growth in our Core EBIT over the three-year performance period using results for 2009 (the year prior to the first year of the performance period) as the baseline. Cumulative Core EBIT for the three-year period is used to determine the compound annual growth rate for this calculation. We generally refer to this growth objective as a CAGR.

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## Core EBIT

Our LTIP Adjusted Core EBIT for the 2010-2012 LTIP performance period is calculated as follows:

| (In millions)  | 2009<br>(Baseline) | 2010    | 2011    | 2012    |
|--|--------------------|---------|---------|---------|
| Adjusted EBIT*   | \$229.0            | \$326.4 | \$478.6 | \$517.4 |
| Adjustments:   |                    |         |         |         |
| Restructuring expenses and related asset impairments   | (33.4 )            | (11.2 ) | (6.9 )  | (6.9 )  |
| Gains (loss) on sales of product lines and gain related to the sale of interest in an unconsolidated affiliate     | 33.9               | —       | (0.8 )  | (0.4 )  |
| Defined benefit pension expense previously reported as noncore, now reported in Adjusted EBIT                      | 16.7               | 13.7    | 8.3     | 9.2     |
| Non-asbestos provision for environmental remediation previously reported as noncore, now reported in Adjusted EBIT | (0.5 )             | 1.3     | 1.5     | 2.3     |
| Other noncore expense (income)   | 9.6                | 1.0     | 2.8     | (3.0)   |
| Core EBIT  | \$255.3            | \$331.2 | \$483.5 | \$518.6 |

\* Calculated as described in this Report in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) in the Financial Supplement.

In completing the CAGR calculation, Core EBIT for each year after 2009 (the baseline year) is adjusted to eliminate the effect of changes in pension expense related to core operations and LTIP expense as follows:

## 2010-2012 LTIP Adjusted Core EBIT

| 2010-2012 LTIP Plan<br>(In millions)                 | 2009<br>Baseline | 2010    | 2011    | 2012    |
|--|------------------|---------|---------|---------|
| Core EBIT  | \$255.3          | \$331.2 | \$483.5 | \$518.6 |
| Adjustments:   |                  |         |         |         |
| Change in Pension Expense related to core operations | —                | (5.4 )  | (13.7 ) | (6.4 )  |
| Long-term Incentive Plan Expense                     | —                | 3.1     | 13.1    | 6.7     |
| LTIP Core EBIT                                       | \$255.3          | \$328.9 | \$482.9 | \$518.9 |

The compound annual growth rates in Core EBIT (reflecting the LTIP adjustments reflected in the table above) as of December 31, 2012, for the 2010-2012 LTIP is as follows:

| LTIP  | CAGR  | % |
|---|-------|---|
| 2010-2012 LTIP (full 3-year performance period) | 30.29 | % |

In order to earn the target award, our CAGR must be 6%, to earn the maximum of 200% of the target award, our CAGR must be 25% and no award is earned if our CAGR is 0 or negative as reflected in the following table:

| Compound Annual Growth Rate in LTIP Adjusted Core EBIT (CAGR) | Portion of LTIP Target Amount Earned |
|---|--------------------------------------|
| Target  |                                      |
| 25%   | 200%                                 |
| 15%   | 147%                                 |
| 10%   | 121%                                 |
| 6%  | 100%                                 |
| 3%  | 50%                                  |
| —%  | —%                                   |

The actual funded amount of the LTIP is determined solely by applying linear interpolation using the CAGR for the relevant performance period between the related target amounts specified above.

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Employees who become entitled to cash payments under an LTIP are generally paid in two installments: one in March of the third year of the performance period as partial payment based on our performance during the first two years of the performance period; and the other in March of the year following the performance period (as final payment based on the complete three-year performance period but offset by any prior partial payment). Partial payments to participants are calculated by: (i) multiplying the participant's target award by 66.67% to determine the two-year partial target; (ii) multiplying the two-year partial target by the interpolated amount from the table above based on our CAGR for the two-year partial performance period to determine the portion of the two-year partial target earned; and (iii) multiplying the portion of the two-year partial target earned by 50%. In any case, the partial payment is subject to a cap equal to 50% of the target amount for the first two years.

Based on 2010-2012 operating performance, payments under the 2010 Cash LTIP are calculated based upon 200% of the full three-year target for each participant as follows:

| Name            | 2010 Cash LTIP Target (\$) | Portion of Target Earned Up to 200% of Target (200% of Target) (\$) | 2010 Cash LTIP Partial Payment Paid in 2012 (\$) | 2010 Cash LTIP Final Payment (\$) |
|-----------------|----------------------------|---|--|-----------------------------------|
| A. E. Festa     | 900,000                    | 1,800,000   | 300,015  | 1,499,985                         |
| H. La Force III | 186,000                    | 372,000   | 62,003   | 309,997                           |
| G. E. Poling    | 229,500                    | 459,000   | 76,504   | 382,496                           |
| D. A. Bonham    | 195,000                    | 390,000   | 65,003   | 324,997                           |
| M. A. Shelnitz  | 144,000                    | 288,000   | 48,002   | 239,998                           |

In order to receive a cash LTIP award payment, employees generally must be actively employed by Grace through the payout date. See "Potential Payments Upon Termination or Change-In-Control—Termination and Change-In-Control Arrangements—Long-Term Incentive Plan (Cash Awards)" for a description of the circumstances under which LTIP payments would be made upon termination of an executive's employment with Grace.

#### Outstanding Equity Awards at Fiscal Year End 2012

The following table provides information regarding outstanding stock options held by the executive officers named in the Summary Compensation Table as of December 31, 2012.



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| Name            | Option Awards   |   | Option<br>Exercise<br>Price<br>(\$) | Option<br>Expiration<br>Date |
|-----------------|---|---|-------------------------------------|------------------------------|
|                 | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>(#)<br>Exercisable | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options<br>(#)<br>Unexercisable |                                     |                              |
| A. E. Festa     | —   | 162,000   | (a) 48.450                          | 6/28/2017                    |
|                 | 88,096  | 176,194   | (b) 42.255                          | 5/5/2016                     |
|                 | 175,001   | 87,499  | (c) 27.745                          | 5/5/2015                     |
|                 | 324,710   | —   | 9.785                               | 5/7/2014                     |
|                 | 96,490  | —   | 19.710                              | 9/11/2013                    |
| H. La Force III | —   | 40,000  | (a) 48.450                          | 6/28/2017                    |
|                 | 16,666  | 33,334  | (b) 42.255                          | 5/5/2016                     |
|                 | 36,167  | 18,083  | (c) 27.745                          | 5/5/2015                     |
|                 | 50,740  | —   | 9.785                               | 5/7/2014                     |
|                 | 45,190  | —   | 19.710                              | 9/11/2013                    |
| G. E. Poling    | —   | 81,000  | (a) 48.450                          | 6/28/2017                    |
|                 | 3,334   | 6,666   | (d) 41.250                          | 11/3/2016                    |
|                 | 20,002  | 39,998  | (b) 42.255                          | 5/5/2016                     |
|                 | 44,626  | 22,312  | (c) 27.745                          | 5/5/2015                     |
|                 | 71,030  | —   | 9.785                               | 5/7/2014                     |
| D. A. Bonham    | —   | 32,500  | (a) 48.450                          | 6/28/2017                    |
|                 | 16,666  | 33,334  | (b) 42.255                          | 5/5/2016                     |
|                 | 37,917  | 18,958  | (c) 27.745                          | 5/5/2015                     |
|                 | 55,810  | —   | 9.785                               | 5/7/2014                     |
| M. A. Shelnitz  | —   | 27,000  | (a) 48.450                          | 6/28/2017                    |
|                 | 11,666  | 23,334  | (b) 42.255                          | 5/5/2016                     |
|                 | 28,001  | 13,999  | (c) 27.745                          | 5/5/2015                     |
|                 | 40,590  | —   | 9.785                               | 5/7/2014                     |
|                 | 31,710  | —   | 19.710                              | 9/11/2013                    |

(a) Options are exercisable in one-third increments on June 28, 2013, June 28, 2014, and June 28, 2015.

(b) Options are exercisable in one-third increments on May 4, 2012, May 3, 2013, and May 5, 2014.

(c) Options are exercisable in one-third increments on May 5, 2011 and May 7, 2012, and May 6, 2013.

(d) Options are exercisable in one-third increments on November 2, 2012, November 1, 2013, and November 3, 2014.

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## Option Exercises and Stock Vested in 2012

The following table provides information regarding the exercise of options held by the executive officers named in the Summary Compensation Table during 2012.

| Name            | Option Awards                             |                                 | Stock Awards                             |                                |
|-----------------|---|---------------------------------|--|--------------------------------|
|                 | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| A. E. Festa     | 75,000                                    | 3,404,520                       | —  | —                              |
| H. La Force III | 25,000                                    | 1,091,358                       | —  | —                              |
| G. E. Poling    | 106,540                                   | 4,053,618                       | —  | —                              |
| D. A. Bonham    | 60,880                                    | 2,224,423                       | —  | —                              |
| M. A. Shelnitz  | 31,710                                    | 1,299,467                       | —  | —                              |

## Pension Benefits

The following table provides information regarding benefits under our Retirement Plan for Salaried Employees, or Pension Plan, our Supplemental Executive Retirement Plan, or SERP, and any supplemental pension arrangements under employment agreements for the executive officers named in the Summary Compensation Table.

| Name            | Plan Name    | Number of Years Credited Service (years) | Present Value of Accumulated Benefit* (\$) | Payments During Last Fiscal Year (\$) |
|-----------------|--------------|--|--|---------------------------------------|
| A. E. Festa     | Pension Plan | 9.08                                     | 303,000                                    | —                                     |
|                 | SERP         | 9.08                                     | 2,612,000                                  | —                                     |
| H. La Force III | Pension Plan | 4.75                                     | 133,000                                    | —                                     |
|                 | SERP         | 4.75                                     | 300,000                                    | —                                     |
| G. E. Poling    | Pension Plan | 33.42                                    | 1,305,000                                  | —                                     |
|                 | SERP         | 33.42                                    | 4,351,000                                  | —                                     |
| D. A. Bonham    | Pension Plan | 7.25                                     | 235,000                                    | —                                     |
|                 | SERP         | 7.25                                     | 542,000                                    | —                                     |
| M. A. Shelnitz  | Pension Plan | 29.17                                    | 1,025,000                                  | —                                     |
|                 | SERP         | 29.17                                    | 1,915,000                                  | —                                     |

Amounts comprise the actuarial present value of the executive officer's accumulated benefit under the Pension Plan and SERP as of December 31, 2012, assuming a 3.75% discount rate and retirement at age 62 with benefits payable on a straight life annuity basis and other assumptions used for financial reporting purposes under generally accepted \*accounting principles as described in this Report in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 10 (Pension Plans and Other Postretirement Benefits Plans) to the Consolidated Financial Statements. The Pension Plan and SERP provide for a reduction in pension benefits to employees that elect early retirement ranging from a 17% reduction for retirement at age 55 to no reduction for retirement at age 62.

## Retirement Plan for Salaried Employees

Full-time salaried employees who are 21 or older and who have one or more years of service are eligible to participate in our Retirement Plan for Salaried Employees, or Pension Plan. Under this basic retirement plan, pension benefits are based upon (a) the employee's average annual compensation for the 60 consecutive months in which his or her compensation is highest during the last 180 months of continuous participation, and (b) the number of years of the employee's credited Grace service. At age 62, a participant is entitled to full benefits under the Pension Plan but a participant may elect reduced payments upon early retirement beginning at age 55. For purposes of the Pension Plan, compensation generally includes base salary and AICP awards; however, for 2012, federal income tax law limits to \$250,000 the annual compensation on which benefits under the Pension Plan may be based. The Pension Plan is

further described in Item 8 (Financial Statements and Supplementary Data) in the

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Financial Supplement under Note 10 (Pension Plans and Other Postretirement Benefits Plans) to the Consolidated Financial Statements and in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Financial Condition, Liquidity, and Capital Resources—Employee Benefit Plans—Defined Benefit Pension Plans") in the Financial Supplement.

Supplemental Executive Retirement Plan

We also have an unfunded, nonqualified Supplemental Executive Retirement Plan, or SERP, under which an employee will receive the full pension to which he or she would be entitled in the absence of the limitations described above and other limitations imposed under federal income tax law. In addition, the SERP recognizes deferred base salary, deferred annual incentive compensation awards and, in some cases, periods of employment during which an employee was ineligible to participate in the basic retirement plan. Since 2001, we have not permitted deferrals of base salary or incentive compensation. The SERP is further described in Item 8 (Financial Statements and Supplementary Data) in the Financial Supplement under Note 10 (Pension Plans and Other Postretirement Benefits Plans) to the Consolidated Financial Statements and in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Financial Condition, Liquidity, and Capital Resources—Employee Benefit Plans—Defined Benefit Pension Plans") in the Financial Supplement.

Non-Qualified Deferred Compensation Plan

The following table summarizes the compensation deferred by the named executive officer pursuant to the provisions of Grace's incentive compensation plan in 1998, under which certain employees were permitted to voluntarily defer receipt of shares of Grace common stock. Such deferred shares were contributed to a "rabbi trust" held for the benefit of the deferred compensation plan participants. Shares held in the plan are fully vested and may be distributed to the plan beneficiary upon retirement or termination of service with us. Since 1998, executives may no longer defer receipt of shares under the plan, although existing balances remain in place.

Fiscal Year 2012 Non-Qualified Deferred Compensation

| Name           | Executive Contributions in Fiscal Year 2012 (\$) | Registrant Contributions in Fiscal Year 2012 (\$) | Aggregate Earnings in Fiscal Year 2012 (\$) | Aggregate Withdrawals/ Distributions in Fiscal Year 2012 (\$) | Aggregate Balance at Fiscal Year 2012 End (\$) |
|----------------|--|---|---|---|--|
| M. A. Shelnitz | —  | —   | 200,759                                     | (a) —   | 633,364 (b)                                    |

(a) Amount represents the increase in value of 9,420.8496 shares of Grace common stock held in the plan based on the closing prices of Grace common stock on December 31, 2011, of \$45.92 and December 31, 2012, of \$67.23.

(b) Amounts reflected are not included in the "Summary Compensation Table" because the earnings are not "above market."

(b) Amount represents the value of 9,420.8496 shares of Grace common stock held in the plan based on the closing price of Grace common stock on December 31, 2012, of \$67.23.

Potential Payments Upon Termination or Change-In-Control

The following table sets forth potential payments to executive officers named in the Summary Compensation Table in the event of the listed events calculated under the assumption that employment terminated on the last business day of 2012. The following table does not include payments pursuant to contracts, agreements, plans and arrangements that do not discriminate in scope, terms or operation, in favor of executive officers and that are available generally to all salaried employees. The value of payments to be made following termination of employment pursuant to the Grace Retirement Plan and the Grace SERP are described above under the caption "Pension Benefits." The value of payments to be made following termination of employment pursuant to Mr. Shelnitz's deferred shares arrangement are described above under the caption "Non-Qualified Deferred Compensation Plan."

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| Name            | Involuntary Termination Without Cause (\$)(a) | Change-in-Control (\$)(b) | Involuntary Termination Without Cause Following Change-in-Control (\$)(c)(d) | Death (\$)(c)(e) | Disability (\$)(c)(g) |     |
|-----------------|---|---------------------------|--|------------------|-----------------------|-----|
| A. E. Festa     | 3,412,500                                     | 10,897,703                | 7,349,985  | 3,323,235        | (f) 2,688,235         | (f) |
| H. La Force III | 645,000                                       | 2,297,724                 | 2,631,997  | 739,997          | 474,831               |     |
| G. E. Poling    | 1,100,000                                     | 3,574,302                 | 3,517,496  | 932,496          | 492,494               |     |
| D. A. Bonham    | 615,000                                       | 2,191,423                 | 2,538,997  | 734,997          | 441,164               |     |
| M. A. Shelnitz  | 750,000                                       | 1,642,577                 | 2,152,498  | 614,998          | 333,748               |     |

Consists: (i) in the case of Mr. Festa, of minimum severance payments pursuant to his employment agreement as described below under "—Termination and Change-in-Control Arrangements—CEO Severance Arrangements;" and (ii) in the case of the other executive officers, minimum severance payments pursuant to severance agreements as (a) described below under "—Termination and Change-in-Control Arrangements—Other Executive Officer Severance Arrangements." Amount excludes cash LTIP payments (in amounts set forth below in footnote (c)) and/or AICP payments that executive officers may receive in the discretion of the Compensation Committee as described below under "—Termination and Change-in-Control Arrangements."

(b) Upon change-in-control, stock options immediately become fully vested and exercisable. Amount shown represents the in-the-money value of unvested stock options as of December 31, 2012.

(c) Includes actual LTIP payment under the 2010 Cash LTIP (as included in the Summary Compensation Table) as follows:

| Name            | 2010-2012 LTIP (Cash) (\$) |
|-----------------|----------------------------|
| A. E. Festa     | 1,499,985                  |
| H. La Force III | 309,997                    |
| G. E. Poling    | 382,496                    |
| D. A. Bonham    | 324,997                    |
| M. A. Shelnitz  | 239,998                    |

(d) Includes contractual payments pursuant to each executive's respective Change-in-Control Severance Agreement calculated under the assumption that no excise tax will apply as follows:

| Name            | Change-in-Control Severance Payments (\$) |
|-----------------|---|
| A. E. Festa     | 5,850,000                                 |
| H. La Force III | 2,322,000                                 |
| G. E. Poling    | 3,135,000                                 |
| D. A. Bonham    | 2,214,000                                 |
| M. A. Shelnitz  | 1,912,500                                 |

(e) Includes the sum of payments under the Grace Executive Salary Protection Plan (ESPP) during the first year following death. For executive officers other than Mr. Festa, amount excludes AICP payments they may receive under certain circumstances in the discretion of the Compensation Committee as described below under "—Termination and Change-in-Control Arrangements." During subsequent years after death until the specified termination year (reflecting the executive officer's age as of December 31, 2012), the sum of payments each year would be as follows:



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| Name            | ESPP Payments<br>Each Year<br>Following<br>Year of Death<br>(\$) | Year of Termination<br>of Payments* |
|-----------------|--|-------------------------------------|
| A. E. Festa     | 487,500  | 2023                                |
| H. La Force III | 215,000  | 2023                                |
| G. E. Poling    | 275,000  | 2021                                |
| D. A. Bonham    | 205,000  | 2023                                |
| M. A. Shelnitz  | 187,500  | 2023                                |

\* Payments terminate 10 years following death; provided however, if the executive officer is over age 55 at the time of death, the duration of payments is reduced.

(f) Includes 2012 AICP payment calculated solely on the basis of Grace's 2012 financial performance in the amount of \$848,250 pursuant to Mr. Festa's employment agreement as described below under "—Termination and Change-in-Control Arrangements—CEO Severance Arrangements."

(g) Includes sum of payments under the Grace Executive Salary Protection Plan during the first year following disability, assuming the executive officer remains disabled for at least 12 consecutive months. Amounts reflect the offset of expected payments under Grace's long-term and short-term disability plans that are based, in part, on the duration of the executive officer's employment. For executive officers other than Mr. Festa, amount excludes AICP payments they may receive under certain circumstances in the discretion of the Compensation Committee as described below under "—Termination and Change-in-Control Arrangements—Annual Incentive Compensation Plan." During subsequent years after disability until the specified termination year or earlier death or end of disability, the sum of payments each year would be:

| Name*           | ESPP Payments<br>Each Year<br>Following<br>Year of Disability<br>(\$) | Year of Termination<br>of Payments |
|-----------------|---|------------------------------------|
| A. E. Festa     | 225,000   | 2024                               |
| H. La Force III | 43,000  | 2029                               |
| M. A. Shelnitz  | 37,500  | 2023                               |

Due to the offset of expected payments under Grace's long-term and short-term disability plans, Grace expects that \*the other named executive officers would not receive any additional payments under the ESPP after the first year of disability.

Termination and Change-in-Control Arrangements

Change-in-Control Severance Agreements. We have entered into severance agreements with all of our executive officers, which renew automatically unless the Board elects not to renew them. These agreements generally provide that in the event of the involuntary termination of the individual's employment without cause (including constructive termination caused by a material reduction in his or her authority or responsibility or by certain other circumstances) following a "change in control," he or she will generally receive a severance payment equal to three times the sum of his or her annual base salary plus target annual incentive compensation, subject to reduction, pro rata in the case of an executive officer who is within 36 months of normal retirement age (65) or, under certain circumstances, to minimize the effect of certain excise taxes if applicable. For purposes of the severance agreements, "change in control" means the acquisition of 20% or more of the outstanding Grace common stock (but not if such acquisition is the result of the sale of common stock by Grace that has been approved by the Board), the failure of Board-nominated directors to constitute a majority of any class of the Board of Directors, the occurrence of a transaction in which the Grace shareholders immediately preceding such transaction do not own more than 50% of the combined voting power of the

entity resulting from such transaction, or the liquidation or dissolution of Grace. As a result of Grace's Chapter 11 filing, the following events will not constitute a "change in control": (i) the acquisition of Grace common stock by a trust established for purposes of administering asbestos-related claims pursuant to a plan of reorganization; and (ii) a corporate transaction pursuant to Section 363 of the U.S. Bankruptcy Code or a plan of reorganization. The severance amount would be paid in a single lump-sum after termination. The description of the severance agreements in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the form of such agreement, which has been filed with the SEC.



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**CEO Severance Arrangements.** Under the terms of Mr. Festa's employment agreement, if we terminate Mr. Festa's employment without cause, or he terminates his employment as a result of constructive discharge, he would be entitled to a severance payment equal to two times a dollar amount equal to 175% of his annual base salary at the time of his termination. The severance amount would be paid in installments over a period of 24 months; however, at Mr. Festa's option, as approved by the Compensation Committee, the entire severance amount may be paid in a single lump-sum after termination. The provisions of Mr. Festa's employment agreement pertaining to this severance amount survive the expiration of the agreement on May 31, 2013. Also under the terms of this agreement, Mr. Festa will not be entitled to any unpaid award under the AICP or any LTIP if his employment with Grace terminates prior to the date that the award is paid to active Grace employees, except that Mr. Festa would be entitled to a prorated portion (based, in the case of the AICP, solely on Grace financial results for that calendar year) of such an unpaid award in the event that his employment is terminated by Grace without cause or he terminates his employment as a result of constructive discharge after Grace emerges from Chapter 11, or his employment terminates as a result of his death or disability, in each case, before the applicable payment date. Severance payments under Mr. Festa's employment agreement are contingent upon Mr. Festa's execution of an agreement releasing Grace and certain related parties from liabilities related to Mr. Festa's employment by Grace. The description of Mr. Festa's employment agreement in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the agreement, which has been filed with the SEC.

**Other Executive Officer Severance Arrangements.** We have entered into severance agreements with Messrs. La Force (included in his employment agreement), Poling and Shelnitz. Mr. Bonham's severance arrangements were established by Compensation Committee approval. Under the terms of the severance arrangements applicable to these named executive officers, in the event of the involuntary termination of the executive officer's employment under circumstances that would qualify the executive officer for severance pay under the severance plan that generally covers our salaried employees, the executive officer would be entitled to severance pay equal to two times his annual base salary, in the case of Messrs. Poling and Shelnitz, or one and one-half times his annual base salary, in the case of Messrs. La Force and Bonham. The severance amount would be paid in installments in the form of salary continuation, provided that an executive officer could elect to receive the entire severance amount as a single lump sum after termination in conjunction with the termination of certain employee benefit coverage. Severance payments are contingent upon the named executive officer's execution of an agreement releasing Grace and certain related parties from liabilities related to his or her employment by Grace. Other than with respect to the amount of severance, the severance arrangements for these named executive officers are the same. The description of the severance arrangements in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to Mr. La Force's employment agreement, the form of executive severance agreement and the Grace Severance Pay Plan for Salaried Employees, each of which has been filed with the SEC.

**Executive Salary Protection Plan.** All executive officers participate in the Executive Salary Protection Plan which provides that, in the event of a participant's disability or death prior to age 70, we will continue to pay all or a portion of base salary to the participant or a beneficiary for a period based on the participant's age at the time of disability or death. Payments under the plan may not exceed 100% of base salary for the first year and 60% thereafter in the case of disability (50% in the case of death). Any payment under the plan as a result of disability would be reduced by the amount of disability income received under Grace's long-term and short-term disability plans that are generally applicable to U.S. salaried employees. The payments would be paid in installments in the form of salary continuation. The description of the plan in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the text of the Executive Salary Protection Plan, as amended, which is filed with the SEC.

**Annual Incentive Compensation Plan.** An employee whose employment terminates prior to an AICP payout date will generally not receive an AICP payment. However, in the discretion of the Compensation Committee, an employee whose employment terminates prior to the payout date may receive an AICP award payment if the employee has more than three months' service under the AICP and employment terminates for any of the following reasons: retirement under a Grace retirement plan; death; disability; divestment; or other termination of employment by Grace that is not for cause. If an employee whose employment terminates prior to the end of a year receives an AICP award payment for that year, the amount of the AICP award payment will generally be prorated for the period

of the employee's service during the year and paid at the time the award is paid to active Grace employees. See "—CEO Severance Arrangements" for a description of the circumstances under which AICP payments would be made to Mr. Festa in the event his employment with Grace is terminated. The description of the AICP in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the text of the AICP which is filed with the SEC.

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Long Term Incentive Plan (Cash Awards). An employee whose employment terminates prior to the payout date will forfeit any unpaid LTIP award payment if employment terminates for any of the following reasons:

- voluntary termination without the consent of the Compensation Committee;
- retirement under a Grace retirement plan prior to age 62 without the consent of the Compensation Committee; or
- termination for cause.

An employee whose employment terminates prior to the payout date will receive an LTIP award payment if employment terminates for any of the following reasons:

- retirement under a Grace retirement plan either at or after age 62;
- death or disability; or
- involuntary termination after a change in control of Grace ("change in control" means that a person beneficially owns 20% or more of the outstanding Grace common stock (but not if such ownership is the result of the sale of Grace common stock by Grace that has been approved by the Board or pursuant to a plan of reorganization that is confirmed and effective), the failure of Board-nominated directors to constitute a majority of any class of the Board of Directors, the occurrence of a corporate transaction (other than a corporate transaction pursuant to Section 363 of the U.S. Bankruptcy Code or a plan of reorganization that is confirmed and effective) in which the Grace shareholders immediately preceding such transaction do not own more than 50% of the combined voting power of the entity resulting from such transaction, or the liquidation or dissolution of Grace).

In the discretion of the Compensation Committee, an employee whose employment terminates for a reason that is not described above (i.e. involuntary termination not for cause or transfer to the buyer of a Grace business unit) prior to the payout date may receive an LTIP award payment. If an employee whose employment terminates prior to the end of an LTIP performance period receives an LTIP award payment for that performance period, the amount of the LTIP award payment will be prorated for the period of the employee's service during the performance period and paid at the time the award is paid to active Grace employees. See "—CEO Severance Arrangements" above for a description of the circumstances under which LTIP payments would be made to Mr. Festa in the event his employment with Grace is terminated. The description of the LTIPs in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the text of the LTIPs, which are filed with the SEC.

Long Term Incentive Plan (2000 and 2011 Stock Incentive Plan Awards). Any stock option held by an employee whose employment terminates prior to exercise will terminate:

- when employment terminates, if employment terminates voluntarily, without the consent of the Compensation Committee, or for cause;
- three years after employment terminates, if employment terminates due to death or incapacity;
- three years after employment terminates, if employment terminates due to retirement under a Grace retirement plan, provided the employee continues to serve Grace until the first installment of the stock option becomes exercisable; or
- three months (subject to extension by the Compensation Committee for up to three years) after employment terminates, if employment terminates for another reason; provided however, if the holder dies or becomes incapacitated during the three-month period (or such longer period as the Compensation Committee approves) the option shall terminate three years after employment termination.

In the event of a Change in Control, any stock options outstanding under the 2000 and 2011 Stock Incentive Plans, that are not exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant.

For purposes of the 2000 and 2011 Stock Incentive Plans, "change in control" means:

- the acquisition of 20% or more of the outstanding Grace Common Stock (but not if such acquisition is the result of the sale of Grace common stock by Grace that has been approved by the Board);
- the failure of Board-nominated directors to constitute a majority of any class of the Board of Directors;

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the occurrence of a transaction in which the Grace shareholders immediately preceding such transaction do not own more than 50% of the combined voting power of the entity resulting from such transaction; or  
 the liquidation or dissolution of Grace.

The description of the 2000 and 2011 Stock Incentive Plans in Item 11 of this Report does not purport to be complete and is qualified in its entirety by reference to the text of the 2000 and 2011 Stock Incentive Plans, which are filed with the SEC.

**Director Compensation for 2012**

Under the compensation program for nonemployee directors in effect during 2012, each nonemployee director received an annual retainer of \$142,750 in cash, 50% of which was paid in January and 50% of which was paid in December. In addition, directors received \$6,000 (plus \$3,000 for the lead independent director and the Audit Committee chair and \$2,000 for other committee chairs) in cash for each meeting date in respect of the Board meeting and all committee meetings held on that date. We reimburse directors for expenses they incur in attending Board and committee meetings and other activities incidental to their service as directors. Our directors, and all Grace employees, are entitled to participate in the Grace Foundation's Matching Grants Program. We also maintain business travel accident insurance coverage for our directors. Mr. Festa's compensation is described above in the Summary Compensation Table and he receives no additional compensation for serving as a member of the Board of Directors. The Compensation Committee has implemented a new director compensation program for 2013 that eliminates meeting fees and is split between cash (44%) and equity (56%) in order to better align director compensation to shareholder returns. Under this program, each nonemployee director will receive: an annual retainer of \$80,000 in cash, 50% of which is paid in January and 50% of which is paid in December; and an annual award of \$100,000 of Grace common stock which is issued in May. Additional annual cash retainers are paid in December as follows: the Lead Independent Director receives \$20,000; the Audit Committee Chair receives \$15,000; and the Chairs of the Compensation and the Nominating and Governance Committees each receive \$10,000. The equity component of this program remains subject to Bankruptcy Court approval. The Compensation Committee has also instituted a stock ownership guideline for directors in the amount of five times the annual director retainer within five years of joining the Board or, in the case of current directors, the adoption of the policy.

The following table sets forth amounts that we paid to our nonemployee directors in connection with their services to Grace during 2012.

| Name                  | Fees<br>Earned<br>or Paid<br>in Cash<br>\$(a) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Change in<br>Pension<br>Value and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$) | All Other<br>Compensation<br>\$(b) | Total<br>(\$) |
|-----------------------|---|-------------------------|--------------------------|--|---|------------------------------------|---------------|
| J. F. Akers           | 190,750                                       | —                       | —                        | —  | —   | 3,000                              | (c) 193,750   |
| H. F. Baldwin         | 178,750                                       | —                       | —                        | —  | —   | —                                  | 178,750       |
| R. C. Cambre          | 178,750                                       | —                       | —                        | —  | —   | —                                  | 178,750       |
| M. A. Fox             | 190,750                                       | —                       | —                        | —  | —   | —                                  | 190,750       |
| J. K. Henry (d)       | 178,750                                       | —                       | —                        | —  | —   | —                                  | 178,750       |
| J. J. Murphy (e)      | 83,375  | —                       | —                        | —  | —   | —                                  | 83,375        |
| J. N. Quinn (d)       | 29,792  | —                       | —                        | —  | —   | —                                  | 29,792        |
| C. J. Steffen         | 191,750                                       | —                       | —                        | —  | —   | 3,000                              | (c) 194,750   |
| M. E. Tomkins         | 196,750                                       | —                       | —                        | —  | —   | —                                  | 196,750       |
| T. A. Vanderslice (e) | 104,375                                       | —                       | —                        | —  | —   | —                                  | 104,375       |

(a) Amount consists of annual retainer in the amount of \$142,750 (prorated for Mr. Quinn in the amount of \$23,792 and reduced by 50% in the case of Messrs. Murphy and Vanderslice in the amount of \$71,375), meeting fees in the

amount of \$36,000 (other than Mr. Murphy who received \$12,000, Mr. Quinn who received \$6,000, and Mr. Vanderslice who received \$18,000) and additional payments to: Mr. Akers for serving as Chair of the Compensation Committee and Dr. Fox for serving as Chair of the Corporate

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Responsibility Committee in the amounts of \$12,000; Mr. Tomkins for serving as Chair of the Audit Committee in the amount of \$18,000; Mr. Vanderslice for serving as Chair of the Nominating and Governance Committee and Lead Independent Director in the amount of \$15,000; and Mr. Steffen for serving as Chair of the Nominating and Governance Committee and Lead Independent Director in the amount of \$13,000.

- (b) Grace paid an aggregate of \$1,909 in premiums for business travel accident insurance coverage for all directors during 2012.
- (c) Consists of charitable contributions paid during 2012 to academic institutions at the request of the director pursuant to the Grace Foundation's Matching Grants Program.
- (d) Ms. Henry and Mr. Quinn were elected to the Board of Directors on January 18, 2012, and November 7, 2012, respectively.
- (e) Messrs. Murphy and Vanderslice resigned from the Board of Directors and all committees effective February 23, 2012, and June 28, 2012, respectively.

Compensation Policies and Practices Relating to Risk Management

We do not believe that risks arising from our compensation policies and practices for our employees are reasonably likely to have a material adverse effect on Grace through excessive risk taking incentives or otherwise. Our compensation program, though tailored to our specific needs, is generally similar to compensation programs used by other companies in our industry. We have many years of experience with the various components of our compensation program, including our incentive plans under which payments may vary based on the performance of the business. We believe these plans, backed by our corporate ethics program and the Grace Core Values, have been successful in aligning the interests of our executives and senior employees with the interests of our stakeholders and in encouraging the responsible pursuit of corporate objectives by our employees.

Compensation Committee Interlocks and Insider Participation

During 2012, the Compensation Committee of the Board was composed of Messrs. Akers (Chair), Baldwin, Cambre, Murphy (until his resignation on February 23, 2012), Vanderslice (until his resignation on June 28, 2012), Tomkins and Steffen and Dr. Fox. Ms. Henry and Mr. Quinn joined the Board and Compensation Committee on January 18, 2012, and November 7, 2012, respectively. None of these persons is a current or former Grace officer or employee, nor did we have any reportable transactions with any of these persons. None of our executive officers serves or in the past has served as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving on our Board of Directors or our Compensation Committee.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITY OWNERSHIP

The following table sets forth the amount of Grace common stock beneficially owned, directly or indirectly, as of January 31, 2013 by:

- each person that we know is the beneficial owner of more than 5% of the outstanding shares of Grace common stock;
- each current director;
- each of the executive officers named in the Summary Compensation Table set forth in Item 11 above; and
- all directors and all executive officers as a group.

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| Name and Address of Beneficial Owner(1)(2)  | Shares of<br>Common<br>Stock<br>Beneficially<br>Owned(3) |     | Percent(4) |   |
|---|--|-----|------------|---|
| FMR LLC(5)  | 6,469,905  |     | 8.6        | % |
| Fidelity Management & Research Company<br>Edward C. Johnson 3d<br>82 Devonshire Street<br>Boston, Massachusetts 02109 |  |     |            |   |
| Iridian Asset Management LLC(6)   | 4,515,563  |     | 6.0        | % |
| David L. Cohen  |  |     |            |   |
| Harold J. Levy  |  |     |            |   |
| 276 Post Road West<br>Westport, CT 06880-4704   |  |     |            |   |
| J. F. Akers   | 38,996   |     |            |   |
|   | 15,196   | (T) |            |   |
|   | 54,192   |     | *          |   |
| H. F. Baldwin   | 21,918   |     |            |   |
|   | 15,000   | (T) |            |   |
|   | 36,918   |     | *          |   |
| R. C. Cambre  | 28,494   |     | *          |   |
| A. E. Festa   | 100,000  |     |            |   |
|   | 684,297  | (O) |            |   |
|   | 784,297  |     | 1.0        | % |
| M. A. Fox   | 55,346   |     |            |   |
|   | 8,942  | (T) |            |   |
|   | 64,288   |     | *          |   |
| J. K. Henry   | -  |     | *          |   |
| J. N. Quinn   | —  |     |            |   |
| C. J. Steffen   | 10,000   |     | *          |   |
| M. E. Tomkins   | 12,000   |     | *          |   |
| D. A. Bonham  | 110,393  | (O) | *          |   |
| H. La Force III   | 50,000   |     |            |   |
|   | 148,763  | (O) |            |   |
|   | 198,763  |     | *          |   |
| G. E. Poling  | 138,992  | (O) |            |   |
|   | 18,000   | (T) |            |   |
|   | 156,992  |     | *          |   |
| M. A. Shelnitz  | 53,500   |     |            |   |
|   | 111,967  | (O) |            |   |
|   | 9,421  | (T) |            |   |
|   | 174,888  |     | *          |   |
| Directors and executive officers as a group (14 persons)  | 370,254  |     |            |   |
|   | 1,227,748  | (O) |            |   |
|   | 66,559   | (T) |            |   |
|   | 1,664,561  |     | 2.2        | % |

\* Indicates less than 1%

(O) Shares covered by stock options exercisable on or within 60 days after January 31, 2013.

(T) Shares owned by trusts and other entities as to which the person has the power to direct voting and/or investment.



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- (1) The address of each of our directors and executive officers is c/o Secretary, W. R. Grace & Co., 7500 Grace Drive, Columbia, MD 21044.
- (2) John J. Murphy and Thomas A. Vanderslice resigned from the Board of Directors effective February 23, 2012 and June 28, 2012, respectively.
- (3) Except as otherwise indicated, to our knowledge, each individual, along with his or her spouse, has sole voting and investment power over the shares.
- (4) Based on 75,592,381 shares of Grace common stock outstanding on January 31, 2013.

The ownership information set forth is based in its entirety on material contained in a Schedule 13G/A filed with the SEC jointly by FMR LLC ("FMR"), Fidelity Management & Research Company ("Fidelity") and Edward C. Johnson 3d ("Mr. Johnson") on February 14, 2013. FMR and Mr. Johnson have sole voting power with respect to 299,808 shares and sole dispositive power with respect to all 6,469,905 shares. Mr. Johnson is Chairman of FMR and members of Mr. Johnson's family may be deemed a controlling group with respect to FMR due to their ownership of FMR voting shares and their entry into a voting agreement with respect to such shares. Fidelity is a wholly-owned subsidiary of FMR. Mr. Johnson and FMR, through its control of Fidelity, each has sole dispositive power over 6,151,578 shares owned by various investment companies for which Fidelity serves as investment advisor. Strategic Advisors, Inc. ("SAI") 82 Devonshire Street, Boston MA 02109, is a wholly-owned subsidiary of FMR. Mr. Johnson and FMR, through its control of SAI, each has beneficial ownership of 87,320 shares owned by accounts managed by SAI. Pyramis Global Advisors, LLC ("PGA"), 900 Salem Street, Smithfield, Rhode Island 02917, is a wholly-owned indirect subsidiary of FMR. Mr. Johnson and FMR, through its control of PGA, each has sole dispositive power over 9,360 shares owned by accounts or funds advised by PGATC. Pyramis Global Advisors Trust Company ("PGATC"), 900 Salem Street, Smithfield, Rhode Island 02917, is a wholly-owned indirect subsidiary of FMR. Mr. Johnson and FMR, through its control of PGATC, each has sole dispositive power over 201,087 shares and sole voting power over 191,457 shares owned by institutional accounts managed by PGATC. Mr. Johnson is Chairman of FIL Limited ("FIL"), Pembroke Hall, 42 Crow Lane, Hamilton, Bermuda, and partnerships controlled predominantly by members of Mr. Johnson's family, or trusts for their benefit, own FIL shares representing between 25% and 50% of the total votes which may be cast by all holders of FIL voting stock. FMR and FIL disclaim that they are acting as a "group" for purposes of Section 13(d) under the Securities Exchange Act of 1934. FIL and various foreign-based subsidiaries provide investment advisory and management services to a number of non-U.S. investment companies and certain institutional investors. FIL is the beneficial owner of 20,560 shares.

- The ownership information set forth is based in its entirety on material contained in a Schedule 13G filed with the SEC by Iridian Asset Management LLC ("Iridian"), David L. Cohen and Harold J. Levy on January 31, 2013. Iridian is majority owned by Arovid Associates LLC. Arovid is owned and controlled by the following: 12.5% by Mr. Cohen, 12.5% by Mr. Levy, 37.5% by LLMD LLC and 37.5% by ALHERO LLC. LLMD LLC is owned 1% by Mr. Cohen and 99% by a family trust controlled by Mr. Cohen. ALHERO LLC is owned 1% by Mr. Levy and (6) 99% by a family trust controlled by Mr. Levy. Iridian has shared voting power and shared dispositive power with respect to 4,515,563 shares held in accounts for which it serves as the investment adviser. Messrs. Cohen and Levy may be deemed to possess beneficial ownership of the shares of Common Stock beneficially owned by Iridian by virtue of their indirect controlling ownership of Iridian, and having the power to vote and direct the disposition of shares of Common Stock as joint Chief Investment Officers of Iridian. Messrs. Cohen and Levy disclaim beneficial ownership of such shares.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information as of December 31, 2012 with respect to our compensation plans under which shares of Grace common stock are authorized for issuance upon the exercise of options, warrants or other rights. The only such compensation plans in effect are stock incentive plans providing for the issuance of stock options and restricted stock.

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| Plan Category   | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options (\$) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities to be issued upon exercise of outstanding options) |
|---|--|---|---|
| Equity compensation plans approved by security holders* | 4,024,484  | 32.3283   | —   |

The 2000 Stock Incentive Plan was approved by stockholders at an annual meeting of Grace stockholders on May 10, 2000. Under the 2000 Plan, there are 2,054,324 shares of Grace common stock to be issued upon the exercise of outstanding options, the weighted-average exercise price of outstanding options is \$20.1380 and no shares of Grace common stock are available for future issuance (excluding shares to be issued upon exercise of outstanding options). The 2011 Stock Incentive Plan was approved on behalf of Grace stockholders by the Official Committee of Equity Security Holders in the Grace Chapter 11 case and by the U.S. Bankruptcy Court for the District of Delaware on April 8, 2011. Under the 2011 Plan, there are 1,970,160 shares of Grace common stock to be issued upon the exercise of outstanding options, the weighted-average exercise price of outstanding options is \$45.0393 and no shares of Grace common stock are available for future issuance (excluding shares to be issued upon exercise of outstanding options).

#### Item 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE BOARD INDEPENDENCE

The Board has determined that all directors, other than Mr. Festa (who is also Chief Executive Officer), but including Messrs. Murphy and Vanderslice (who each resigned during 2012) are independent under New York Stock Exchange rules because none of such directors has any direct or indirect material relationship with Grace or our affiliates, other than through his or her service as a director and as an owner of less than 1% of Grace common stock. In addition to the application of the New York Stock Exchange rules, this determination was based on a number of factors, principal among them were the following:

- none of these directors, nor any member of their immediate families is (or at any time during the last three years was) a Grace executive officer or employee and none of these directors is an employee, and no member of their immediate families is an executive officer of any other entity with whom we do any material amount of business;
- none of these directors or any member of their immediate families has, during the last three years, received more than \$50,000 in direct compensation from Grace (other than director and committee fees); and
- none of these directors serve, or within the last three years served, as an executive officer, director, trustee or fiduciary of any charitable organization to which we made any material charitable donation.

Only independent directors serve on our Audit, Nominating and Governance, Compensation and Corporate Responsibility Committees. Mr. Steffen has been appointed Lead Independent Director and, in this capacity, presides at executive sessions of independent directors. Interested parties may communicate with Mr. Steffen by writing him at the following address: Christopher J. Steffen—Lead Independent Director, c/o W. R. Grace & Co., 7500 Grace Drive, Columbia, Maryland 21044.

#### REVIEW, APPROVAL OR RATIFICATION OF TRANSACTIONS WITH RELATED PARTIES

The Board recognizes that transactions involving related persons in which Grace is a participant can present conflicts of interest, or the appearance thereof, so the Board has adopted a written policy as part of the Grace Corporate Governance Guidelines (which are available on our website at [www.grace.com/About/Leadership/Governance/](http://www.grace.com/About/Leadership/Governance/)) with respect to related person transactions. The policy applies to transactions involving related persons that are required to be disclosed pursuant to SEC regulations, which are generally transactions in which:

- Grace is a participant;
- the amount involved exceeds \$120,000; and
-

any related person, such as a Grace executive officer, director, director nominee, 5% stockholder or any of their respective family members, has a direct or indirect material interest.

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Each such related person transaction shall be reviewed, determined to be in, or not inconsistent with, the best interests of Grace and its stockholders and approved or ratified by:

the disinterested members of the Audit Committee, if the disinterested members of the Audit Committee constitute a majority of the members of the Audit Committee; or  
 the disinterested members of the Board.

In the event a related person transaction is entered into without prior approval and, after review by the Audit Committee or the Board, as the case may be, the transaction is not ratified, we will make all reasonable efforts to cancel the transaction.

#### Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee of the Board of Directors selected PricewaterhouseCoopers LLP, or PwC, to act as our principal independent accountants for 2012. The following table sets forth the fees that we incurred for the services of PwC for the year ended December 31, 2011 and our estimate of the fees that we incurred for the year ended December 31, 2012:

| Fee Description    | 2012*       | 2011        |
|--------------------|-------------|-------------|
| Audit Fees         | \$4,591,900 | \$4,021,100 |
| Audit-Related Fees | 167,600     | 24,800      |
| Tax Fees           | 352,500     | 472,800     |
| All Other Fees     | 25,900      | 9,000       |
| Total Fees         | \$5,137,900 | \$4,527,700 |

\* For 2012, amounts are current estimates in respect of services received for which final invoices have not been submitted.

Audit Services consisted of the audit of our Consolidated Financial Statements and our internal controls over financial reporting (as required under Section 404 of the Sarbanes-Oxley Act of 2002), the review of our consolidated quarterly financial statements and statutory audits of certain of Grace's non-U.S. subsidiaries and affiliates.

Audit-Related Services primarily consisted of audits of employee benefit plans and review procedures that are not required by statute or regulation and were performed at the request of the Company.

Tax Services consisted of tax advice and compliance for non-U.S. subsidiaries, including preparation of tax returns, and advice and assistance with transfer pricing compliance.

All Other Fees consisted of license fees for access to accounting, tax, and financial reporting literature and non-financial agreed-upon procedures.

The Audit Committee has adopted a preapproval policy that requires the Audit Committee to specifically preapprove the annual engagement of the independent accountants for the audit of our Consolidated Financial Statements and internal controls. The policy also provides for preapproval of certain audit-related, tax and other services provided by the independent accountants. Any other services must be specifically preapproved by the Audit Committee. However, the Chair of the Audit Committee has the authority to preapprove services requiring immediate engagement between scheduled meetings of the Audit Committee. The Chair must report any such preapproval decisions to the full Audit Committee at its next scheduled meeting. During 2012 and 2011, no audit-related, tax, or other services were performed by PwC without specific or general approval as described above.

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## PART IV

## Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements and Schedules. The required information is set forth in the Financial Supplement under the heading "Table of Contents" which is incorporated herein by reference.

Exhibits. The exhibits to this Report are listed below. Other than exhibits that are filed herewith, all exhibits listed below are incorporated by reference.

For purposes of describing these exhibits, "Old Grace" means W. R. Grace & Co., a Delaware corporation (subsequently renamed Sealed Air Corporation), a predecessor to Grace, and "Grace New York" means W. R. Grace & Co., a New York corporation (subsequently renamed Fresenius Medical Care Holdings, Inc.), a predecessor to Old Grace.

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

- are not statements of fact, but rather are used to allocate risk to one of the parties if the statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other parties in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and do not reflect more recent developments.

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

| Exhibit No. | Exhibit   | Location   |
|-------------|---|--|
| 2.1         | Form of Distribution Agreement, by and among Old Grace, W. R. Grace & Co.-Conn. and Grace Specialty Chemicals, Inc. (now named W. R. Grace & Co.) | Annex B to the Joint Proxy Statement/Prospectus dated February 13, 1998 of Old Grace and Sealed Air Corporation included in Form S-4 (filed 2/13/98) SEC File No.: 333-46281 |
| 2.2         | Proposed Joint Plan of Reorganization of W. R. Grace & Co. and its debtor subsidiaries dated February 27, 2009                                    | Exhibit 2.2 to Form 10-K (filed 3/02/09) SEC File No.: 001-13953   |
| 3.1         | Restated Certificate of Incorporation of W. R. Grace & Co.  | Exhibit 3.1 to Form 8-K (filed 4/8/98) SEC File No.: 001-13953   |
| 3.2         | Amended and Restated By-laws of W. R. Grace & Co.   | Exhibit 3.1 to Form 8-K (filed 2/27/09) SEC File No.: 001-13953  |
| 4.1         | Amended and Restated Rights Agreement dated as of March 25, 2008 between W. R. Grace & Co. and Mellon Investor Services LLC, as Rights Agent      | Exhibit 4.1 to Form 10/A (filed 3/25/08) SEC File No.: 001-13953   |



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| Exhibit No. | Exhibit   | Location   |
|-------------|---|--|
| 4.2         | Order of Delaware Bankruptcy Court limiting certain transfers of Grace equity securities  | Exhibit 4.2 to Form 10-K (filed 3/02/09) SEC File No.: 001-13953   |
| 4.3         | Credit Agreement dated as of May 14, 1998, among W. R. Grace & Co.-Conn., W. R. Grace & Co., the several banks parties thereto; the co-agents signatories thereto; The Chase Manhattan Bank, as administrative agent for such banks; and Chase Securities Inc., as arranger   | Exhibit 4.1 to Form 10-Q (filed 8/14/98) SEC File No.: 001-13953   |
| 4.4         | 364-Day Credit Agreement, dated as of May 5, 1999, among W. R. Grace & Co.-Conn.; W. R. Grace & Co.; the several banks parties thereto; the co-agents signatories thereto; Bank of America National Trust and Savings Association, as documentation agent; The Chase Manhattan Bank, as administrative agent for such banks; and Chase Securities Inc., as book manager | Exhibit 4.1 to Form 10-Q (filed 8/13/99) SEC File No.: 001-13953   |
| 4.5         | First Amendment to 364-Day Credit Agreement dated as of May 5, 1999 among W. R. Grace & Co.-Conn.; W. R. Grace & Co.; the several banks parties thereto; Bank of America National Trust and Savings Association, as document agent; The Chase Manhattan Bank, as administrative agent for such banks; and Chase Securities, Inc., as bank manager                       | Exhibit 4 to Form 10-Q (filed 8/15/00) SEC File No.: 001-13953     |
| 4.6         | Receivables Purchase Agreement dated as of January 23, 2007 between Grace GmbH & Co. KG and Coface Finanz GmbH  | Exhibit 4.10 to Form 10-K (filed 3/02/07) SEC File No.: 001-13953  |
| 10.1        | Form of Employee Benefits Allocation Agreement, by and among Old Grace, W. R. Grace & Co.-Conn. and Grace Specialty Chemicals, Inc. (now named W. R. Grace & Co.)   | Exhibit 10.1 to Form 10-K (filed 3/13/03) SEC File No.: 001-13953  |
| 10.2        | Form of Tax Sharing Agreement, by and among Old Grace, W. R. Grace & Co.-Conn. and Grace Specialty Chemicals, Inc. (now named W. R. Grace & Co.)  | Exhibit 10.2 to Form 10-K (filed 3/13/03) SEC File No.: 001-13953  |
| 10.3        | W. R. Grace & Co. 2000 Stock Incentive Plan, as amended   | Exhibit 10 to Form 10-Q (filed 8/14/00) SEC File No.: 001-13953*   |
| 10.4        | W. R. Grace & Co. 2011 Stock Incentive Plan   | Exhibit 10.1 to Form 8-K (filed 4/13/11) SEC File No.: 001-13953*  |
| 10.5        | Form of Stock Option Agreement  | Exhibit 10.1 to Form 8-K (filed 4/13/11) SEC File No.: 001-13953*  |
| 10.6        | W. R. Grace & Co. Supplemental Executive Retirement Plan, as amended  | Exhibit 10.7 to Form 10-K (filed 3/28/02) SEC File No.: 001-13953* |
| 10.7        | W. R. Grace & Co. Executive Salary Protection Plan, as amended  | Exhibit 10.8 to Form 10-K (filed 3/28/02) SEC File No.: 001-13953* |
| 10.8        | Long-Term Incentive Program Administrative Practices  | Exhibit 10.4 to Form 8-K (filed 5/11/10) SEC File No.: 001-13953*  |
| 10.9        | Form of 2010-2012 Long-Term Incentive Program Cash Award  | Exhibit 10.3 to Form 8-K (filed 5/11/10) SEC File No.:             |

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|       |  |  |
|-------|--|--|
| 10.10 | Form of Executive Severance Agreement between Grace and certain officers                               | 001-13953*<br>Exhibit 10.17 to Form 10-K (filed 3/13/03) SEC File No.:<br>001-13953* |
| 10.11 | Severance Pay Plan for Salaried Employees  | Exhibit 10.17 to Form 10-K (filed 3/02/07) SEC File No.:<br>001-13953*               |
| 10.12 | Form of Retention Agreement between Grace and certain officers (includes enhanced severance provision) | Exhibit 10.28 to Form 10-K (filed 4/16/01) SEC File No.:<br>001-13953*               |



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| Exhibit No. | Exhibit  | Location  |
|-------------|--|---|
| 10.13       | Annual Incentive Compensation Program  | Exhibit 10.1 to Form 8-K (filed 2/28/11) SEC File No.: 001-13953* |
| 10.14       | Letter Agreement dated May 27, 2009 between John F. Akers, on behalf of Grace, and Fred Festa  | Exhibit 10.1 to Form 8-K (filed 5/29/09) SEC File No.: 001-13953* |
| 10.15       | Letter Agreement dated February 28, 2008 between Fred Festa, on behalf of Grace, and Hudson La Force III (includes enhanced severance provision) | Exhibit 10.1 to Form 8-K (filed 3/07/08) SEC File No.: 001-13953* |
| 12          | Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends                                       | Filed herewith  |
| 21          | List of Subsidiaries of W. R. Grace & Co.  | Filed herewith  |
| 23          | Consent of Independent Accountants   | Filed herewith  |
| 24          | Powers of Attorney   | Filed herewith  |
| 31.(i).1    | Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002                                  | Filed herewith  |
| 31.(i).2    | Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002                                  | Filed herewith  |
| 32          | Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002      | Filed herewith  |
| 95          | Mine Safety Disclosure Exhibit   | Filed herewith  |
| 101.INS     | XBRL Instance Document   | Filed herewith  |
| 101.SCH     | XBRL Taxonomy Extension Schema   | Filed herewith  |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase   | Filed herewith  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase  | Filed herewith  |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase   | Filed herewith  |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase  | Filed herewith  |

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\*Management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this Report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereto duly authorized.

W. R. GRACE & CO.  
 By: /s/ ALFRED E. FESTA  
 Alfred E. Festa  
 (Chairman and Chief Executive Officer)  
 By: /s/ HUDSON LA FORCE III  
 Hudson La Force III  
 (Senior Vice President and  
 Chief Financial Officer)  
 By: /s/ WILLIAM C. DOCKMAN  
 William C. Dockman  
 (Vice President and Controller)

Dated: February 27, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 27, 2013.

| Signature  | Title   |
|--|---|
| J. F. Akers*                                     | }   |
| H. F. Baldwin*                                   | }   |
| R. C. Cambre*                                    | }   |
| M. A. Fox*                                       | }   |
| J. K. Henry*                                     | } Directors   |
| J. N. Quinn*                                     | }   |
| C. J. Steffen*                                   | }   |
| M. E. Tomkins*                                   | }   |
|  |   |
| /s/ ALFRED E. FESTA<br>(Alfred E. Festa)         | Chairman, Chief Executive Officer and Director (Principal Executive Officer)    |
| /s/ HUDSON LA FORCE III<br>(Hudson La Force III) | Senior Vice President and Chief Financial Officer (Principal Financial Officer) |
| /s/ WILLIAM C. DOCKMAN<br>(William C. Dockman)   | Vice President and Controller (Principal Accounting Officer)                    |

By signing his name hereto, Mark A. Shelnitz is signing this document on behalf of each of the persons indicated \*above pursuant to powers of attorney duly executed by such persons and filed with the Securities and Exchange Commission.

By: /s/ MARK A. SHELNITZ  
 Mark A. Shelnitz  
 (Attorney-in-Fact)

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FINANCIAL SUPPLEMENT  
W. R. GRACE & CO.  
ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2012

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The financial data listed above appearing in this Financial Supplement are incorporated by reference herein. The Financial Statement Schedule should be read in conjunction with the Consolidated Financial Statements and Notes thereto. Financial statements of less than majority-owned persons and other persons accounted for by the equity method have been omitted as provided in Rule 3-09 of the United States Securities and Exchange Commission's (SEC) Regulation S-X. Financial Statement Schedules not included have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

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## Management's Report on Financial Information and Internal Controls

**Responsibility For Financial Information**—We are responsible for the preparation, accuracy, integrity and objectivity of the Consolidated Financial Statements and the other financial information included in this report. Such information has been prepared in conformity with accounting principles generally accepted in the United States of America and accordingly, includes certain amounts that represent management's best estimates and judgments. Actual amounts could differ from those estimates.

**Responsibility for Internal Controls**—We are also responsible for establishing and maintaining adequate internal controls over financial reporting. These internal controls consist of policies and procedures that are designed to assess and monitor the effectiveness of the control environment including risk identification, governance structure, delegations of authority, information flow, communications and control activities. A chartered Disclosure Committee oversees Grace's public financial reporting process and key managers are required to confirm their compliance with Grace's policies and internal controls quarterly. While no system of internal controls can ensure elimination of all errors and irregularities, Grace's internal controls, which are reviewed and modified in response to changing conditions, have been designed to provide reasonable assurance that assets are safeguarded, policies and procedures are followed, transactions are properly executed and reported, and appropriate disclosures are made. The concept of reasonable assurance is based on the recognition that there are limitations in all systems of internal control and that the costs of such systems should be balanced with their benefits. The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with Grace's senior financial management, internal auditors and independent registered public accounting firm to review audit plans and results, as well as the actions taken by management in discharging its responsibilities for accounting, financial reporting and internal controls. The Audit Committee is responsible for the selection and compensation of the independent registered public accounting firm. Grace's financial management, internal auditors and independent registered public accounting firm have direct and confidential access to the Audit Committee at all times.

**Report On Internal Control Over Financial Reporting**—We and our management have evaluated Grace's internal control over financial reporting as of December 31, 2012. This evaluation was based on criteria for effective internal control over financial reporting set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we and our management have concluded that Grace's internal control over financial reporting is effective as of December 31, 2012. Grace's independent registered public accounting firm that audited our financial statements included in Item 15 has also audited the effectiveness of Grace's internal control over financial reporting as of December 31, 2012, as stated in their report, which appears on the following page.

**Report On Disclosure Controls And Procedures**—As of December 31, 2012, we carried out an evaluation of the effectiveness of the design and operation of Grace's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, we concluded that Grace's disclosure controls and procedures are effective in ensuring that information required to be disclosed in Grace's periodic filings under the Exchange Act is accumulated and communicated to us to allow timely decisions regarding required disclosures, and such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

/s/ A. E. FESTA

A. E. Festa  
Chief Executive Officer

February 27, 2013

/s/ HUDSON LA FORCE III

Hudson La Force III  
Senior Vice President and  
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, equity (deficit), and cash flows present fairly, in all material respects, the financial position of W.R Grace & Co. and its subsidiaries (the "Company") at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

McLean, Virginia

February 27, 2013

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Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-37024 & 333-173785) of W.R. Grace & Co. of our report dated February 27, 2013 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

McLean, Virginia

February 27, 2013

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Table of ContentsW. R. Grace & Co. and Subsidiaries  
Consolidated Statements of Operations

| (In millions, except per share amounts)                           | Year Ended December 31, |           |           |   |
|---|-------------------------|-----------|-----------|---|
|   | 2012                    | 2011      | 2010      |   |
| Net sales   | \$3,155.5               | \$3,211.9 | \$2,675.0 |   |
| Cost of goods sold  | 1,989.2                 | 2,050.6   | 1,726.4   |   |
| Gross profit  | 1,166.3                 | 1,161.3   | 948.6     |   |
| Selling, general and administrative expenses                      | 537.5                   | 568.4     | 514.4     |   |
| Restructuring expenses and related asset impairments              | 6.9                     | 6.9       | 11.2      |   |
| Research and development expenses                                 | 64.5                    | 68.5      | 60.3      |   |
| Defined benefit pension expense                                   | 71.2                    | 63.4      | 77.1      |   |
| Interest expense and related financing costs                      | 46.5                    | 43.3      | 41.3      |   |
| Provision for environmental remediation                           | 3.6                     | 17.8      | 4.5       |   |
| Chapter 11 expenses, net of interest income                       | 16.6                    | 20.0      | 17.7      |   |
| Libby medical program settlement                                  | 19.6                    | —         | —         |   |
| Provision for asbestos-related contingencies                      | 365.0                   | —         | —         |   |
| Equity in earnings of unconsolidated affiliate                    | (18.5                   | ) (15.2   | ) (17.8   | ) |
| Other (income) expense, net                                       | (4.4                    | ) 4.7     | —         |   |
| Total costs and expenses  | 1,108.5                 | 777.8     | 708.7     |   |
| Income before income taxes  | 57.8                    | 383.5     | 239.9     |   |
| Benefit from (provision for) income taxes                         | 37.3                    | (114.7    | ) (32.5   | ) |
| Net income  | 95.1                    | 268.8     | 207.4     |   |
| Less: Net loss (income) attributable to noncontrolling interests  | (1.0                    | ) 0.6     | (0.3      | ) |
| Net income attributable to W. R. Grace & Co. shareholders         | \$94.1                  | \$269.4   | \$207.1   |   |
| Earnings Per Share Attributable to W. R. Grace & Co. Shareholders |                         |           |           |   |
| Basic earnings per share:   |                         |           |           |   |
| Net income attributable to W. R. Grace & Co. shareholders         | \$1.26                  | \$3.66    | \$2.85    |   |
| Weighted average number of basic shares                           | 74.9                    | 73.6      | 72.7      |   |
| Diluted earnings per share:                                       |                         |           |           |   |
| Net income attributable to W. R. Grace & Co. shareholders         | \$1.23                  | \$3.57    | \$2.78    |   |
| Weighted average number of diluted shares                         | 76.3                    | 75.5      | 74.4      |   |

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

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

## Consolidated Statements of Comprehensive Income

| (In millions)  | Year Ended December 31, |         |         |
|--|-------------------------|---------|---------|
|  | 2012                    | 2011    | 2010    |
| Net income   | \$95.1                  | \$268.8 | \$207.4 |
| Other comprehensive income (loss):   |                         |         |         |
| Defined benefit pension and other postretirement plans, net of income taxes      | (36.6                   | ) (46.7 | ) (14.8 |
| Currency translation adjustments   | 5.4                     | (11.6   | ) 12.2  |
| Gain (loss) from hedging activities, net of income taxes                         | 2.4                     | (2.1    | ) (1.0  |
| Total other comprehensive income (loss) attributable to noncontrolling interests | 0.8                     | 1.8     | (2.1    |
| Total other comprehensive loss   | (28.0                   | ) (58.6 | ) (5.7  |
| Comprehensive income   | 67.1                    | 210.2   | 201.7   |
| Less: comprehensive (income) loss attributable to noncontrolling interests       | (1.8                    | ) (1.2  | ) 1.8   |
| Comprehensive income attributable to W. R. Grace & Co. shareholders              | \$65.3                  | \$209.0 | \$203.5 |

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

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Table of ContentsW. R. Grace & Co. and Subsidiaries  
Consolidated Statements of Cash Flows

| (In millions)  | Year Ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2012                    | 2011     | 2010     |
| <b>OPERATING ACTIVITIES</b>  |                         |          |          |
| Net income   | \$95.1                  | \$268.8  | \$207.4  |
| Reconciliation to net cash provided by operating activities:                 |                         |          |          |
| Depreciation and amortization  | 119.0                   | 120.0    | 115.6    |
| Equity in earnings of unconsolidated affiliate                               | (18.5                   | ) (15.2  | ) (17.8  |
| Dividend received from unconsolidated affiliate                              | 6.3                     | 10.9     | 0.5      |
| Chapter 11 expenses, net of interest income                                  | 16.6                    | 20.0     | 17.7     |
| Chapter 11 expenses paid   | (15.5                   | ) (20.6  | ) (28.6  |
| Libby medical program settlement   | 19.6                    | —        | —        |
| Libby medical program settlement paid  | (19.6                   | ) —      | —        |
| Provision for asbestos-related contingencies                                 | 365.0                   | —        | —        |
| (Benefit from) provision for income taxes                                    | (37.3                   | ) 114.7  | 32.5     |
| Income taxes paid, net of refunds  | (82.6                   | ) (44.7  | ) (13.8  |
| Tax benefits from stock-based compensation                                   | (36.8                   | ) —      | —        |
| Interest accrued on pre-petition liabilities subject to compromise           | 40.4                    | 39.0     | 37.5     |
| Restructuring expenses and related asset impairments                         | 6.9                     | 6.9      | 11.2     |
| Payments for restructuring expenses  | (8.4                    | ) (7.2   | ) (13.9  |
| Defined benefit pension expense  | 71.2                    | 63.4     | 77.1     |
| Payments under defined benefit pension arrangements                          | (126.8                  | ) (265.1 | ) (63.3  |
| Provision for environmental remediation                                      | 3.6                     | 17.8     | 4.5      |
| Expenditures for environmental remediation                                   | (13.0                   | ) (11.8  | ) (8.0   |
| Changes in assets and liabilities, excluding effect of currency translation: |                         |          |          |
| Trade accounts receivable  | (3.0                    | ) (80.6  | ) (15.8  |
| Inventories  | 53.9                    | (66.9    | ) (37.1  |
| Accounts payable   | (11.7                   | ) 52.6   | 35.5     |
| All other items, net   | 29.2                    | 17.4     | (15.3    |
| Net cash provided by operating activities                                    | 453.6                   | 219.4    | 325.9    |
| <b>INVESTING ACTIVITIES</b>  |                         |          |          |
| Capital expenditures   | (138.5                  | ) (144.0 | ) (111.1 |
| Businesses acquired, net of cash acquired                                    | (80.0                   | ) (55.8  | ) (34.7  |
| Transfer to restricted cash and cash equivalents                             | (61.1                   | ) (38.8  | ) (97.8  |
| Proceeds from sales of product lines   | —                       | 10.0     | —        |
| Other investing activities   | (0.7                    | ) 7.7    | 0.5      |
| Net cash used for investing activities                                       | (280.3                  | ) (220.9 | ) (243.1 |
| <b>FINANCING ACTIVITIES</b>  |                         |          |          |
| Net borrowings under credit arrangements                                     | 35.9                    | 21.6     | 28.9     |
| Proceeds from exercise of stock options                                      | 32.2                    | 12.1     | 10.4     |
| Tax benefits from stock-based compensation                                   | 36.8                    | —        | —        |
| Other financing activities   | 5.4                     | 6.0      | 2.2      |
| Net cash provided by financing activities                                    | 110.3                   | 39.7     | 41.5     |
| Effect of currency exchange rate changes on cash and cash equivalents        | 5.0                     | (5.6     | ) (1.6   |
| Increase in cash and cash equivalents  | 288.6                   | 32.6     | 122.7    |
| Cash and cash equivalents, beginning of period                               | 1,048.3                 | 1,015.7  | 893.0    |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Cash and cash equivalents, end of period | \$1,336.9 | \$1,048.3 | \$1,015.7 |
|--|-----------|-----------|-----------|

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

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

## Consolidated Balance Sheets

(In millions, except par value and shares)

|  | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current Assets   |                      |                      |
| Cash and cash equivalents  | \$1,336.9            | \$1,048.3            |
| Restricted cash and cash equivalents   | 197.6                | 136.5                |
| Trade accounts receivable, less allowance of \$5.2 (2011—\$8.1)  | 474.8                | 461.8                |
| Accounts receivable—unconsolidated affiliate   | 15.6                 | 11.2                 |
| Inventories  | 278.6                | 329.1                |
| Deferred income taxes  | 58.3                 | 66.5                 |
| Other current assets   | 78.4                 | 93.0                 |
| Total Current Assets   | 2,440.2              | 2,146.4              |
| Properties and equipment, net of accumulated depreciation and amortization of \$1,785.1 (2011—\$1,722.7) | 770.5                | 723.5                |
| Goodwill   | 196.7                | 148.2                |
| Patents, licenses and other intangible assets, net   | 82.7                 | 70.6                 |
| Deferred income taxes  | 956.3                | 759.4                |
| Asbestos-related insurance   | 500.0                | 500.0                |
| Overfunded defined benefit pension plans   | 33.8                 | 37.1                 |
| Investments in unconsolidated affiliate  | 85.5                 | 70.8                 |
| Other assets   | 24.5                 | 38.0                 |
| Total Assets   | \$5,090.2            | \$4,494.0            |
| <b>LIABILITIES AND EQUITY</b>  |                      |                      |
| Liabilities Not Subject to Compromise  |                      |                      |
| Current Liabilities  |                      |                      |
| Debt payable within one year   | \$83.4               | \$57.9               |
| Debt payable—unconsolidated affiliate  | 3.6                  | 3.4                  |
| Accounts payable   | 249.4                | 257.1                |
| Accounts payable—unconsolidated affiliate  | 2.6                  | 0.5                  |
| Other current liabilities  | 307.3                | 314.0                |
| Total Current Liabilities  | 646.3                | 632.9                |
| Debt payable after one year  | 13.4                 | 3.3                  |
| Debt payable—unconsolidated affiliate  | 22.4                 | 18.3                 |
| Deferred income taxes  | 27.1                 | 19.8                 |
| Underfunded and unfunded defined benefit pension plans   | 400.6                | 407.4                |
| Other liabilities  | 45.0                 | 49.1                 |
| Total Liabilities Not Subject to Compromise  | 1,154.8              | 1,130.8              |
| Liabilities Subject to Compromise—Note 2   |                      |                      |
| Debt plus accrued interest   | 973.3                | 941.8                |
| Income tax contingencies   | 87.6                 | 69.3                 |
| Asbestos-related contingencies   | 2,065.0              | 1,700.0              |
| Environmental contingencies  | 140.5                | 149.9                |
| Postretirement benefits  | 188.1                | 185.2                |
| Other liabilities and accrued interest   | 162.6                | 149.5                |
| Total Liabilities Subject to Compromise  | 3,617.1              | 3,195.7              |
| Total Liabilities  | 4,771.9              | 4,326.5              |
| Commitments and Contingencies—Note 12  |                      |                      |

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|  |           |           |
|--|-----------|-----------|
| Equity   |           |           |
| Common stock issued, par value \$0.01; 300,000,000 shares authorized; outstanding:<br>75,565,409 (2011—73,886,050) | 0.8       | 0.7       |
| Paid-in capital  | 536.5     | 472.9     |
| Retained earnings  | 395.2     | 301.1     |
| Treasury stock, at cost: shares: 1,414,351 (2011—3,093,710)  | (16.8     | ) (36.8   |
| Accumulated other comprehensive loss   | (607.3    | ) (578.5  |
| Total W. R. Grace & Co. Shareholders' Equity   | 308.4     | 159.4     |
| Noncontrolling interests   | 9.9       | 8.1       |
| Total Equity   | 318.3     | 167.5     |
| Total Liabilities and Equity   | \$5,090.2 | \$4,494.0 |

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

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

## Consolidated Statements of Equity (Deficit)

| (In millions)                        | Common<br>Stock and<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Equity<br>(Deficit) |
|--------------------------------------|---|--|-------------------|---|-----------------------------|------------------------------|
| Balance, December 31, 2009           | \$446.6                                   | \$(175.4   | ) \$(55.9         | ) \$(514.5                                    | ) \$ 8.7                    | \$(290.5 )                   |
| Net income                           | —   | 207.1  | —                 | —   | 0.3                         | 207.4                        |
| Stock plan activity                  | 10.0                                      | —  | 10.0              | —   | —                           | 20.0                         |
| Other comprehensive loss             | —   | —  | —                 | (3.6  | ) (2.1                      | ) (5.7 )                     |
| Balance, December 31, 2010           | 456.6                                     | 31.7   | (45.9             | ) (518.1                                      | ) 6.9                       | (68.8 )                      |
| Net income (loss)                    | —   | 269.4  | —                 | —   | (0.6                        | ) 268.8                      |
| Stock plan activity                  | 17.0                                      | —  | 9.1               | —   | —                           | 26.1                         |
| Other comprehensive<br>income (loss) | —   | —  | —                 | (60.4   | ) 1.8                       | (58.6 )                      |
| Balance, December 31, 2011           | 473.6                                     | 301.1  | (36.8             | ) (578.5                                      | ) 8.1                       | 167.5                        |
| Net income                           | —   | 94.1   |                   |   |                             |                              |