

W R GRACE & CO

Form 10-Q

May 03, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

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

Commission File Number 1-13953

W. R. GRACE & CO.

Delaware

65-0773649

(State of Incorporation)

(I.R.S. Employer Identification No.)

7500 Grace Drive

Columbia, Maryland 21044

(410) 531-4000

(Address and phone number of principal executive offices)

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

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

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

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

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

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

Class	Outstanding at April 30, 2013
Common Stock, \$0.01 par value per share	75,936,053 shares

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Review by Independent Registered Public Accounting Firm

With respect to the interim consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, PricewaterhouseCoopers LLP, the company's independent registered public accounting firm, has applied limited procedures in accordance with professional standards for a review of such information. Their report on the interim consolidated financial statements, which follows, states that they did not audit and they do not express an opinion on the unaudited interim financial statements. Accordingly, the degree of reliance on their report on the unaudited interim financial statements should be restricted in light of the limited nature of the review procedures applied. This report is not considered a "report" within the meaning of Sections 7 and 11 of the Securities Act of 1933, and, therefore, the independent accountants' liability under Section 11 does not extend to it.

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Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors of W. R. Grace & Co.:

We have reviewed the accompanying consolidated balance sheet of W.R. Grace & Co. and its subsidiaries as of March 31, 2013, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the three-month periods ended March 31, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

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

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012 and the related consolidated statements of operations, comprehensive income, equity (deficit), and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2013, we expressed an unqualified opinion on those consolidated financial statements with an explanatory paragraph relating to the Company's ability to continue as a going concern. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
McLean, Virginia
May 3, 2013

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Operations (unaudited)

(In millions, except per share amounts)	Three Months Ended	
	March 31,	
	2013	2012
Net sales	\$709.9	\$754.4
Cost of goods sold	446.1	477.3
Gross profit	263.8	277.1
Selling, general and administrative expenses	128.9	136.6
Restructuring expenses and related asset impairments	0.8	3.0
Research and development expenses	16.9	16.5
Defined benefit pension expense	18.6	18.8
Interest expense and related financing costs	10.5	11.3
Provision for environmental remediation	1.0	0.6
Chapter 11 expenses, net of interest income	4.8	4.5
Equity in earnings of unconsolidated affiliate	(5.1)	(5.7)
Other (income) expense, net	6.1	(0.6)
Total costs and expenses	182.5	185.0
Income before income taxes	81.3	92.1
Provision for income taxes	(28.1)	(30.8)
Net income	53.2	61.3
Less: Net income attributable to noncontrolling interests	(0.3)	(0.4)
Net income attributable to W. R. Grace & Co. shareholders	\$52.9	\$60.9
Earnings Per Share Attributable to W. R. Grace & Co. Shareholders		
Basic earnings per share:		
Net income attributable to W. R. Grace & Co. shareholders	\$0.70	\$0.82
Weighted average number of basic shares	75.7	74.3
Diluted earnings per share:		
Net income attributable to W. R. Grace & Co. shareholders	\$0.69	\$0.80
Weighted average number of diluted shares	77.2	76.4

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

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Comprehensive Income (unaudited)

(In millions)	Three Months Ended	
	March 31,	
	2013	2012
Net income	\$53.2	\$61.3
Other comprehensive income (loss):		
Defined benefit pension and other postretirement plans, net of income taxes	36.2	10.1
Currency translation adjustments	(6.5) 6.2
Gain (loss) from hedging activities, net of income taxes	0.4	(0.1)
Total other comprehensive income attributable to noncontrolling interests	0.2	0.1
Total other comprehensive income	30.3	16.3
Comprehensive income	83.5	77.6
Less: comprehensive income attributable to noncontrolling interests	(0.5) (0.5)
Comprehensive income attributable to W. R. Grace & Co. shareholders	\$83.0	\$77.1

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

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

(In millions)	Three Months Ended	
	March 31, 2013	2012
OPERATING ACTIVITIES		
Net income	\$53.2	\$61.3
Reconciliation to net cash provided by (used for) operating activities:		
Depreciation and amortization	31.1	29.4
Equity in earnings of unconsolidated affiliate	(5.1)	(5.7)
Dividend received from unconsolidated affiliate	2.8	5.2
Chapter 11 expenses, net of interest income	4.8	4.5
Chapter 11 expenses paid	(3.2)	(3.2)
Provision for income taxes	28.1	30.8
Income taxes paid, net of refunds	(11.6)	(8.0)
Interest accrued on pre-petition liabilities subject to compromise	9.0	9.9
Restructuring expenses and related asset impairments	0.8	3.0
Payments for restructuring expenses	(1.2)	(2.2)
Defined benefit pension expense	18.6	18.8
Payments under defined benefit pension arrangements	(53.9)	(113.7)
Provision for environmental remediation	1.0	0.6
Expenditures for environmental remediation	(2.6)	(4.4)
Changes in assets and liabilities, excluding effect of currency translation:		
Trade accounts receivable	39.6	11.1
Inventories	(42.8)	(26.1)
Accounts payable	48.3	11.1
All other items, net	(66.8)	(41.8)
Net cash provided by (used for) operating activities	50.1	(19.4)
INVESTING ACTIVITIES		
Capital expenditures	(38.3)	(37.3)
Transfer to restricted cash and cash equivalents	(4.0)	(3.0)
Net cash used for investing activities	(42.3)	(40.3)
FINANCING ACTIVITIES		
Net (repayments) borrowings under credit arrangements	(17.7)	0.9
Proceeds from exercise of stock options	6.3	12.0
Other financing activities	0.8	1.7
Net cash (used for) provided by financing activities	(10.6)	14.6
Effect of currency exchange rate changes on cash and cash equivalents	(14.3)	5.0
Decrease in cash and cash equivalents	(17.1)	(40.1)
Cash and cash equivalents, beginning of period	1,336.9	1,048.3
Cash and cash equivalents, end of period	\$1,319.8	\$1,008.2

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

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W. R. Grace & Co. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(In millions, except par value and shares)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$1,319.8	\$1,336.9
Restricted cash and cash equivalents	201.6	197.6
Trade accounts receivable, less allowance of \$5.0 (2012—\$5.2)	429.6	474.8
Accounts receivable—unconsolidated affiliate	13.8	15.6
Inventories	317.8	278.6
Deferred income taxes	52.6	58.3
Other current assets	94.4	78.4
Total Current Assets	2,429.6	2,440.2
Properties and equipment, net of accumulated depreciation and amortization of \$1,783.7 (2012—\$1,785.1)	762.5	770.5
Goodwill	194.3	196.7
Patents, licenses and other intangible assets, net	78.9	82.7
Deferred income taxes	927.2	956.3
Asbestos-related insurance	500.0	500.0
Overfunded defined benefit pension plans	36.5	33.8
Investment in unconsolidated affiliate	90.5	85.5
Other assets	29.9	24.5
Total Assets	\$5,049.4	\$5,090.2
LIABILITIES AND EQUITY		
Liabilities Not Subject to Compromise		
Current Liabilities		
Debt payable within one year	\$67.5	\$83.4
Debt payable—unconsolidated affiliate	4.5	3.6
Accounts payable	284.8	249.4
Accounts payable—unconsolidated affiliate	1.4	2.6
Other current liabilities	238.9	307.3
Total Current Liabilities	597.1	646.3
Debt payable after one year	11.7	13.4
Debt payable—unconsolidated affiliate	21.7	22.4
Deferred income taxes	26.9	27.1
Underfunded and unfunded defined benefit pension plans	309.1	400.6
Other liabilities	45.1	45.0
Total Liabilities Not Subject to Compromise	1,011.6	1,154.8
Liabilities Subject to Compromise—Note 2		
Debt plus accrued interest	981.1	973.3
Income tax contingencies	90.4	87.6
Asbestos-related contingencies	2,065.0	2,065.0
Environmental contingencies	139.3	140.5
Postretirement benefits	185.1	188.1
Other liabilities and accrued interest	165.3	162.6
Total Liabilities Subject to Compromise	3,626.2	3,617.1
Total Liabilities	4,637.8	4,771.9
Commitments and Contingencies—Note 10		

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Equity		
Common stock issued, par value \$0.01; 300,000,000 shares authorized; outstanding: 75,871,645 (2012—75,565,409)	0.8	0.8
Paid-in capital	542.7	536.5
Retained earnings	448.1	395.2
Treasury stock, at cost: shares: 1,108,115 (2012—1,414,351)	(13.2)) (16.8)
Accumulated other comprehensive loss	(577.2)) (607.3)
Total W. R. Grace & Co. Shareholders' Equity	401.2	308.4
Noncontrolling interests	10.4	9.9
Total Equity	411.6	318.3
Total Liabilities and Equity	\$5,049.4	\$5,090.2

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

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Equity (unaudited)

(In millions)	Common Stock and Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance, December 31, 2011	\$473.6	\$301.1	\$(36.8)	\$(578.5)	\$ 8.1	\$167.5
Net income	—	60.9	—	—	0.4	61.3
Stock plan activity	6.2	—	8.1	—	—	14.3
Other comprehensive income	—	—	—	16.2	0.1	16.3
Balance, March 31, 2012	\$479.8	\$362.0	\$(28.7)	\$(562.3)	\$ 8.6	\$259.4
Balance, December 31, 2012	\$537.3	\$395.2	\$(16.8)	\$(607.3)	\$ 9.9	\$318.3
Net income	—	52.9	—	—	0.3	53.2
Stock plan activity	6.2	—	3.6	—	—	9.8
Other comprehensive income	—	—	—	30.1	0.2	30.3
Balance, March 31, 2013	\$543.5	\$448.1	\$(13.2)	\$(577.2)	\$ 10.4	\$411.6

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

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Notes to Consolidated Financial Statements

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

W. R. Grace & Co., through its subsidiaries, is engaged in specialty chemicals and specialty materials businesses on a global basis through three operating segments: Grace Catalysts Technologies, which includes catalysts and related products used in refining, petrochemical and other chemical manufacturing applications; Grace Materials Technologies, which includes packaging technologies and engineered materials used in consumer, industrial, coatings, and pharmaceutical applications; and Grace Construction Products, which includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction.

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

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

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

After a thorough review of these developments, Grace's Board of Directors concluded that a federal court-supervised bankruptcy process provided the best forum available to achieve fairness in resolving these claims and on April 2, 2001 (the "Filing Date"), Grace and 61 of its United States subsidiaries and affiliates, (collectively, the "Debtors"), filed voluntary petitions for reorganization (the "Filing") under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The cases were consolidated and are being jointly administered under case number 01-01139 (the "Chapter 11 Cases"). Grace's non-U.S. subsidiaries and certain of its U.S. subsidiaries were not included in the Filing.

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

Basis of Presentation The interim Consolidated Financial Statements presented herein are unaudited and should be read in conjunction with the Consolidated Financial Statements presented in the Company's 2012 Annual Report on Form 10-K. Such interim Consolidated Financial Statements reflect all adjustments that, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented; all such adjustments are of a normal recurring nature except for the impacts of adopting new accounting standards as discussed below. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the three-month interim period ended March 31, 2013, are not necessarily indicative of the results of operations for the year ending December 31, 2013.

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

Certain prior period amounts have been revised to correct the previous classification. Cash payments associated with capital expenditures of \$12.3 million for the period ended March 31, 2012, previously classified as operating activities in the Statements of Cash Flows have been revised to investing activities. In addition, cash payments associated with capital expenditures of \$4.6 million and \$9.6 million for the periods ended June 30, 2012, and September 30, 2012, respectively, previously classified as operating activities in the Statements of Cash Flows will be revised to investing activities.

Grace concluded that these revisions were not material to the prior-year Consolidated Financial Statements.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the

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Notes to Consolidated Financial Statements (Continued)

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

reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the periods presented. Actual amounts could differ from those estimates, and the differences could be material. Changes in estimates are recorded in the period identified. Grace's accounting measurements that are most affected by management's estimates of future events are:

- Contingent liabilities, which depend on an assessment of the probability of loss and an estimate of ultimate resolution cost, such as asbestos-related matters and litigation (see Notes 2 and 3), income taxes (see Note 7), and environmental remediation (see Note 10);

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

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

- Recoverability of goodwill, which depends on assumptions used to value reporting units, such as observable market inputs, projections of future cash flows and weighted average cost of capital. The Grace Construction Products (GCP) Europe reporting unit continues to operate in a challenging environment. While the fair value of this reporting unit exceeded the carrying value at its last testing date and management does not believe that impairment is probable, the business must continue to improve its performance in future periods, consistent with expectations, to sustain the goodwill carrying value.

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

Currency Translation On February 8, 2013, the Venezuelan government announced that, effective February 13, 2013, the official exchange rate of the bolivar to U.S. dollar would devalue from 4.3 to 6.3. As a result of this currency devaluation, Grace incurred a charge to net income of \$8.5 million in the 2013 first quarter. Of this amount, \$1.6 million is included in segment operating income.

Effect of New Accounting Standards In June 2011, the FASB issued ASU 2011-05 "Presentation of Comprehensive Income". This update is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The new disclosure requirements are effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years, with early adoption permitted. In December 2011, the FASB issued ASU 2011-12 "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05". This update defers certain paragraphs of ASU 2011-05 pertaining to reclassification adjustments out of accumulated other comprehensive income. This deferral is effective for fiscal years beginning after December 15, 2011, and for interim periods within those fiscal years, with early adoption permitted. Grace continues to report its Consolidated Statement of Other Comprehensive Income as a separate financial statement, immediately following the Consolidated Statement of Operations to comply with the updates that have not been deferred. In February 2013, the FASB issued ASU 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income", which further clarifies these disclosure requirements. This update is effective for fiscal years beginning after December 15, 2012, and for interim periods within those fiscal years, with early adoption permitted. Grace adopted this update in the 2013 first quarter and it did not have a material effect on the Consolidated Financial Statements.

In December 2011, the FASB issued ASU 2011-11 "Disclosures about Offsetting Assets and Liabilities". This update is intended to improve the comparability of statements of financial position prepared in accordance with U.S. GAAP and IFRS, requiring both gross and net information about offsetting assets and liabilities. The new requirements are effective for fiscal years beginning on or after January 1, 2013, and for interim periods within those fiscal years. In January 2013, the FASB issued ASU 2013-01 "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities", which clarifies these disclosure requirements. These standards are effective for fiscal years beginning on

or after January 1, 2013, and for interim periods within those fiscal years. Grace adopted these standards for the 2013 first quarter and they did not have a material effect on the Consolidated Financial Statements.

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information

Official Parties to Grace's Chapter 11 Cases The Bankruptcy Court has appointed four official committees. The Official Committee of Asbestos Personal Injury Claimants (the "PI Committee") and the Official Committee of Asbestos Property Damage Claimants (the "PD Committee") respectively represent two different asbestos claimant constituencies. The other two committees are the Official Committee of Unsecured Creditors (the "Creditors' Committee"), which represents general unsecured creditors, and the Official Committee of Equity Security Holders (the "Equity Committee"), which represents equity security holders. These committees, along with a legal representative of future asbestos personal injury claimants (the "PI FCR") and a legal representative of future asbestos property damage claimants (the "PD FCR"), have the right to be heard on all matters that come before the Bankruptcy Court and have important roles in the Chapter 11 Cases. The Debtors are required to bear certain costs and expenses of the committees and the representatives of future asbestos claimants, including those of their counsel and financial advisors.

As discussed below, the Debtors, the Equity Committee, the PI Committee and the PI FCR have filed a joint plan of reorganization, subsequently amended, with the Bankruptcy Court that is designed to address all pending and future asbestos-related claims and all other pre-petition claims as outlined therein (as amended to date, the "Joint Plan"). The Creditors' Committee, the PD Committee and the PD FCR are not co-proponents of the Joint Plan. On January 31, 2011, the Bankruptcy Court issued an order confirming the Joint Plan. On January 31, 2012, the United States District Court for the District of Delaware (the "District Court") issued an order affirming the Bankruptcy Court's confirmation order, denying all appeals from the confirmation order and confirming the Joint Plan in its entirety. Appeals have been filed challenging the District Court order confirming the Joint Plan. The resolution of any such appeals could have a material effect on the terms and timing of Grace's emergence from Chapter 11. In order for the Joint Plan to become effective, all conditions to the effective date set forth in the Joint Plan must be satisfied or waived.

Plans of Reorganization Prior to 2008, competing plans of reorganization were filed by Grace and jointly by the PI Committee and the PI FCR. Grace filed its first proposed plan with the Bankruptcy Court in November 2004 and amended it in January 2005 (the "Prior Plan"). However, in April 2008, the Debtors reached an agreement in principle with the PI Committee, the PI FCR, and the Equity Committee designed to resolve all present and future asbestos-related personal injury claims (the "PI Settlement"). A trial for estimating liability for such claims began in January 2008 but was suspended in April 2008 as a result of the PI Settlement.

As contemplated by the PI Settlement, in September 2008, the Debtors, supported by the Equity Committee, the PI Committee and the PI FCR, as co-proponents, filed the Joint Plan to reflect the terms of the PI Settlement. The Joint Plan supersedes the Prior Plan and all other previously filed plans.

In November 2008, the Debtors reached an agreement in principle (the "ZAI PD Term Sheet") with the Putative Class Counsel to the U.S. ZAI claimants, the PD FCR, and the Equity Committee designed to resolve all present and future U.S. ZAI property damage claims and demands.

In January 2011, the Company, Grace Canada, Inc. and legal representatives of Canadian ZAI property damage claimants became parties to an agreement that would settle all Canadian ZAI property damage claims and demands (the "Canadian ZAI Settlement"). Under that agreement, all Canadian ZAI property damage claims and demands would be paid through a separate Canadian ZAI property damage claims fund of CDN\$8.6 million. The Canadian ZAI Settlement is subject to the effectiveness of the Joint Plan.

The Joint Plan is designed to address all pending and future asbestos-related claims and all other pre-petition claims as outlined therein. Under the Joint Plan, two asbestos trusts would be established under Section 524(g) of the Bankruptcy Code. All asbestos-related personal injury claims would be channeled for resolution to one asbestos trust (the "PI Trust") and all asbestos-related property damage claims, including U.S. and Canadian ZAI property damage claims, would be channeled to a separate asbestos trust (the "PD Trust"). Amendments and technical modifications to the Joint Plan and several associated documents were filed by the Debtors and co-proponents on nine occasions from December 2008 through December 2010 to, among other things, reflect the agreements described above.

The Joint Plan assumes that Cryovac, Inc. ("Cryovac"), a wholly owned subsidiary of Sealed Air Corporation ("Sealed Air"), will fund the PI Trust and the PD Trust with an aggregate of: (i) \$512.5 million in cash (plus interest at 5.5% compounded annually from December 21, 2002); and (ii) 18 million shares (reflecting a two-for-one stock split) of common stock of Sealed Air, pursuant to the terms of a settlement agreement resolving asbestos-related,

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

successor liability and fraudulent transfer claims against Sealed Air and Cryovac (the "Sealed Air Settlement"). The value of the Sealed Air Settlement changes daily with the accrual of interest and the trading value of Sealed Air common stock. The Joint Plan also assumes that Fresenius AG ("Fresenius") will fund the PI Trust and the PD Trust with an aggregate of \$115.0 million pursuant to the terms of a settlement agreement resolving asbestos-related, successor liability and fraudulent transfer claims against Fresenius (the "Fresenius Settlement"). The Sealed Air Settlement and the Fresenius Settlement have been approved by the Bankruptcy Court but remain subject to the fulfillment of specified conditions.

Any plan of reorganization, including the Joint Plan and any plan of reorganization that may be filed in the future by a party-in-interest, will become effective only after a vote of eligible creditors and with the approval of the Bankruptcy Court and the District Court.

All classes of creditors entitled to vote accepted the Joint Plan in May 2009. The class of general unsecured creditors, who voted on a provisional basis pending a determination as to whether the class is impaired and therefore entitled to a vote, voted to reject the Joint Plan. In January 2011, the Bankruptcy Court issued an order confirming the Joint Plan and overruling all objections. In January 2012, the District Court issued an order affirming the Bankruptcy Court's confirmation order, denying all appeals from the confirmation order and confirming the Joint Plan in its entirety. On June 11, 2012, the District Court reaffirmed the confirmation order and the denial of all appeals after motions for reconsideration.

Eight parties filed notices of appeal with the United States Court of Appeals for the Third Circuit (the "Third Circuit") on or before the July 11, 2012, deadline for appeals, of which five remain pending. The appeals generally relate to demands for interest at rates higher than provided for in the Joint Plan, the validity of the asbestos channeling injunctions, and the classification and treatment of claims under the Joint Plan.

On June 5, 2012, the Bankruptcy Court approved agreements among Grace, co-proponents of the Joint Plan, BNSF, and the representatives of Libby, Montana, asbestos personal injury claimants to settle certain objections to the Joint Plan. Those agreements became effective on September 21, 2012, resulting in the withdrawal of the appeals to the Joint Plan by the Libby claimants, BNSF and an insurance company. In addition, in accordance with the agreements, Grace transferred responsibility for the former Grace-operated Libby Medical Program to a locally administered trust and funded the trust with a one-time payment of \$19.6 million. Payments to Libby claimants under the Joint Plan are not affected by the Grace-Libby agreement.

The timing of the effectiveness of the Joint Plan and Grace's subsequent emergence will depend on a favorable ruling by the Third Circuit and the satisfaction or waiver by Grace, Grace's co-proponents under the Joint Plan, and Sealed Air and Fresenius of the remaining conditions to effectiveness set forth in the Joint Plan, including the availability of any required exit financing and the final resolution of all appeals.

If any of the appeals are resolved adversely to Grace and the other Joint Plan proponents, the Joint Plan may be amended to address the deficiencies identified by the Third Circuit or the Joint Plan may be terminated and a new plan proposed. If the Joint Plan cannot be amended to address all deficiencies identified by the Third Circuit in a manner satisfactory to Grace and the other Joint Plan proponents and Grace cannot reach an agreement with its asbestos creditors on the terms of a new plan of reorganization, Grace would expect to resume the estimation trial, which was suspended in April 2008 due to the PI Settlement, to determine the amount of the asbestos-related liabilities. Whether the Joint Plan is amended or a different plan of reorganization is ultimately confirmed, the value of the interests of holders of Company common stock could be materially different than under the current Joint Plan and the Company common stock could be substantially diluted or canceled.

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

Asbestos-Related Personal Injury Claims

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

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

The PI Trust would be funded with:

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

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

- A warrant to acquire 10 million shares of Company common stock at an exercise price of \$17.00 per share, expiring one year from the effective date of the Joint Plan. This obligation will be settled in cash with the PI Trust as discussed below;

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

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

- Cash in the amount of \$115 million to be paid by Fresenius pursuant to the Fresenius Settlement reduced by the amount of Fresenius' contribution to the PD Initial Payment and the ZAI Initial Payment (as described below); and Deferred payments by Grace of \$110 million per year for 5 years beginning in 2019, and \$100 million per year for 10 years beginning in 2024, that would be subordinate to any bank debt or bonds outstanding, guaranteed by the Company and secured by the Company's obligation to issue 50.1% of its outstanding common stock (measured as of the effective date of the Joint Plan) to the PI Trust in the event of default.

Asbestos-Related Property Damage Claims

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

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

The PD account would be funded with:

- Approximately \$152 million in cash plus cash in the amount of the estimated first six months of PD Trust expenses, to be paid by Cryovac and Fresenius (the "PD Initial Payment"), and CDN\$8.6 million in cash to be paid by Grace pursuant to the Canadian ZAI Settlement.

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

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

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

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

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

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

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

Other Claims

All allowed administrative claims would be paid in cash and all allowed priority claims would be paid in cash with interest. Secured claims would be paid in cash with interest or by reinstatement. Allowed general unsecured claims would be paid in cash, including any post-petition interest as follows: (i) for holders of pre-petition bank credit facilities, post-petition interest at the rate of 6.09% from the Filing Date through December 31, 2005, and thereafter at floating prime, in each case compounded quarterly; and (ii) for all other unsecured claims that are not subject to a settlement agreement providing otherwise, interest at 4.19% from the Filing Date, compounded annually, or if pursuant to an existing contract, interest at the non-default contract rate. The general unsecured creditors that hold pre-petition bank debt have argued that they are entitled to post-petition interest at the default rate specified under the terms of the underlying credit agreements, which they asserted was approximately an additional \$185 million as of December 31, 2012, and growing (Grace believes that if default interest was ultimately determined to be payable, the additional amount of accrued interest would be substantially less than that asserted by the pre-petition bank debt holders). The Bankruptcy Court and the District Court have overruled this assertion and the pre-petition bank debt holders have appealed these rulings to the Third Circuit. Unsecured employee-related claims such as pension, retirement medical obligations and workers compensation claims would be reinstated.

Effect on Company Common Stock

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

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

On October 25, 2012, Grace reached agreement with the PI Committee, the PI FCR and the Equity Committee to settle the warrant in cash during the one-year period after the effective date of the Joint Plan. Under the terms of the agreement, Grace will repurchase the warrant issued to the PI Trust for a price equal to the average of the daily closing prices of Grace common stock during the period commencing one day after the effective date of the Joint Plan and ending on the day prior to the date the PI Trust elects to sell the warrant back to Grace, multiplied by 10 million (the number of shares issuable under the warrant), less \$170 million (the aggregate exercise price of the warrant), provided

that if the average of the daily closing prices is less than \$54.50 per share, then the repurchase price would be \$375 million, and if the average of the daily closing prices exceeds \$66.00 per

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

share, then the repurchase price would be \$490 million. The agreement is terminable by the PI Trust in the event a tender offer, or other proposed transaction that would result in a change in control of the Company, is announced during the one year period after the effective date of the Joint Plan. In such event, the warrant would be settled in stock. The agreement was approved by the Bankruptcy Court on December 11, 2012.

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

Approximately 14,900 proofs of claim were filed by the March 31, 2003, claims bar date. Of these claims, approximately 9,500 were non-asbestos-related, approximately 4,400 were PD Claims, and approximately 1,000 were for medical monitoring. Under the Joint Plan, the medical monitoring claims would be channeled to the PI Trust for resolution. In addition, approximately 800 proofs of claim were filed after the claims bar date.

Approximately 6,940 non-asbestos-related claims were filed by employees or former employees (the "Employee Claims") for benefits arising from Grace's employee benefit plans. As of March 31, 2013, approximately 170 of these claims remain pending and are to be addressed through the claim objection process and the dispute resolution procedures approved by the Bankruptcy Court.

The remaining non-asbestos, non-employee-related claims include claims for amounts due under pre-petition credit facilities, leases and other contracts, environmental remediation, taxes, and non-asbestos-related personal injury. As of March 31, 2013, of the approximately 3,300 of these claims filed, approximately 115 claims remain pending and are to be addressed through the claim objection process and the dispute resolution procedures approved by the Bankruptcy Court. As of March 31, 2013, of the approximately 4,335 non-ZAI PD Claims filed, approximately 20 claims remain pending and are to be addressed through the property damage case management order approved by the Bankruptcy Court and/or the Joint Plan or another plan of reorganization.

Additionally, by order dated June 17, 2008, the Bankruptcy Court established October 31, 2008, as the claims bar date for ZAI PD Claims related to property located in the U.S. Approximately 17,960 U.S. ZAI PD Claims were filed prior to the October 31, 2008, claims bar date and, as of March 31, 2013, an additional 1,310 U.S. ZAI PD Claims were filed. Under the Canadian ZAI Settlement, all Canadian ZAI PD Claimants who filed a proof of claim by December 31, 2009, would be entitled to seek compensation from the Canadian ZAI PD Claims Fund. Approximately 14,100 Canadian ZAI PD Claims were filed by December 31, 2009. The Joint Plan provides for the channeling of U.S. ZAI PD Claims and Canadian ZAI PD Claims to the PD Trust created under the Joint Plan, and the subsequent transfer of Canadian ZAI PD Claims to a separate Canadian fund. No claims bar date has been set for personal injury claims related to ZAI. The Joint Plan provides that ZAI PI Claims would be channeled to the PI Trust created under the Joint Plan.

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

Debt Capital All of the Debtors' pre-petition debt is in default due to the Filing. The accompanying Consolidated Balance Sheets reflect the classification of the Debtors' pre-petition debt within "liabilities subject to compromise." Grace maintains a \$100 million cash-collateralized letter of credit facility with a commercial bank to support existing and new financial assurances.

Accounting Impact The accompanying Consolidated Financial Statements have been prepared in accordance with ASC 852 "Reorganizations". ASC 852 requires that financial statements of debtors-in-possession be prepared on a going concern basis, which contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Filing, the realization of certain of the Debtors' assets and the liquidation of certain of the Debtors' liabilities are subject to significant uncertainty. While operating as

debtors-in-possession, the Debtors may sell or otherwise dispose of assets and liquidate or settle liabilities for amounts other than those reflected in the Consolidated Financial Statements. Further, the

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

ultimate plan of reorganization could materially change the amounts and classifications reported in the Consolidated Financial Statements.

Pursuant to ASC 852, Grace's pre-petition and future liabilities that are subject to compromise are required to be reported separately on the balance sheet at an estimate of the amount that will ultimately be allowed by the Bankruptcy Court. As of March 31, 2013, such pre-petition liabilities include fixed obligations (such as debt and contractual commitments), as well as estimates of costs related to contingent liabilities (such as asbestos-related litigation, environmental remediation and other claims). Obligations of Grace subsidiaries not covered by the Filing continue to be classified on the Consolidated Balance Sheets based upon maturity dates or the expected dates of payment. ASC 852 also requires separate reporting of certain expenses, realized gains and losses, and provisions for losses related to the Filing as reorganization items. Grace presents reorganization items as "Chapter 11 expenses, net of interest income," a separate caption in its Consolidated Statements of Operations.

Grace has not recorded the benefit of any assets that may be available to fund asbestos-related and other liabilities under the Fresenius Settlement and the Sealed Air Settlement, as under the Joint Plan, these assets will be transferred to the PI Trust and the PD Trust. The estimated fair value available under the Fresenius Settlement and the Sealed Air Settlement as measured at March 31, 2013, was \$1,438 million, composed of \$115 million in cash from Fresenius and \$1,323 million in cash and stock from Cryovac under the Joint Plan. Payments under the Sealed Air Settlement will be made directly to the PI Trust and the PD Trust by Cryovac.

Grace's Consolidated Balance Sheets separately identify the liabilities that are "subject to compromise" as a result of the Chapter 11 proceedings. In Grace's case, "liabilities subject to compromise" represent both pre-petition and future liabilities as determined under U.S. GAAP. Changes to pre-petition liabilities subsequent to the Filing Date reflect: (1) cash payments under approved court orders; (2) the terms of the Joint Plan, as discussed above and in Note 3, including the accrual of interest on pre-petition debt and other fixed obligations; (3) accruals for employee-related programs; and (4) changes in estimates related to other pre-petition contingent liabilities. The accounting for the asbestos-related liability component of "liabilities subject to compromise" is described in Note 3.

Components of liabilities subject to compromise are as follows:

(In millions)	March 31, 2013	December 31, 2012
Asbestos-related contingencies	\$2,065.0	\$2,065.0
Pre-petition bank debt plus accrued interest	944.6	937.2
Environmental contingencies	139.3	140.5
Unfunded special pension arrangements	131.8	134.3
Income tax contingencies	90.4	87.6
Postretirement benefits other than pension	63.7	63.9
Drawn letters of credit plus accrued interest	36.5	36.1
Accounts payable	31.3	31.3
Retained obligations of divested businesses	28.4	29.0
Other accrued liabilities	105.6	102.3
Reclassification to current liabilities(1)	(10.4) (10.1
Total Liabilities Subject to Compromise	\$3,626.2	\$3,617.1

As of March 31, 2013, and December 31, 2012, approximately \$10.4 million and \$10.1 million, respectively, of (1) certain pension and postretirement benefit obligations subject to compromise have been presented in "other current liabilities" in the Consolidated Balance Sheets in accordance with ASC 715 "Compensation—Retirement Benefits". Note that the unfunded special pension arrangements reflected above exclude non-U.S. pension plans and qualified U.S. pension plans that became underfunded subsequent to the Filing. Contributions to qualified U.S. pension plans are subject to Bankruptcy Court approval.

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Change in Liabilities Subject to Compromise

The following table is a reconciliation of the changes in pre-filing date liability balances for the period from the Filing Date through March 31, 2013.

(In millions) (Unaudited)	Cumulative Since Filing
Balance, Filing Date April 2, 2001	\$2,366.0
Cash disbursements and/or reclassifications under Bankruptcy Court orders:	
Payment of environmental settlement liability	(252.0)
Freight and distribution order	(5.7)
Trade accounts payable order	(9.1)
Resolution of contingencies subject to Chapter 11	(130.0)
Other court orders for payments of certain operating expenses	(383.1)
Expense (income) items:	
Interest on pre-petition liabilities	559.0
Employee-related accruals	129.0
Provision for asbestos-related contingencies	1,109.8
Provision for environmental contingencies	356.1
Release of income tax contingencies	(77.7)
Balance sheet reclassifications	(36.1)
Balance, end of period	\$3,626.2

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

For the holders of pre-petition bank credit facilities, beginning January 1, 2006, Grace agreed to pay interest on pre-petition bank debt at the prime rate, adjusted for periodic changes, and compounded quarterly. The effective rate for the three months ended March 31, 2013 and 2012, was 3.25%. From the Filing Date through December 31, 2005, Grace accrued interest on pre-petition bank debt at a negotiated fixed annual rate of 6.09%, compounded quarterly.

The pre-petition bank debt holders have argued that they are entitled to post-petition interest at the default rate specified under the terms of the underlying credit agreements, which they asserted was approximately an additional \$185 million as of December 31, 2012, and growing (Grace believes that if default interest was ultimately determined to be payable, the additional amount of accrued interest would be substantially less than that asserted by the pre-petition bank debt holders). The Bankruptcy Court and the District Court have overruled this assertion and the pre-petition bank debt holders have appealed these rulings to the Third Circuit.

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

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

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

Chapter 11 Expenses

(In millions)	Three Months Ended March 31,	
	2013	2012
Legal and financial advisory fees	\$5.0	\$4.7
Interest income	(0.2)	(0.2)
Chapter 11 expenses, net of interest income	\$4.8	\$4.5
Pursuant to ASC 852, interest income earned on the Debtors' cash balances must be offset against Chapter 11 expenses.		

Condensed Financial Information of the Debtors
W. R. Grace & Co.—Chapter 11 Filing Entities
Debtor-in-Possession Statements of Operations

(In millions) (Unaudited)	Three Months Ended March 31,	
	2013	2012
Net sales, including intercompany	\$347.1	\$364.3
Cost of goods sold, including intercompany, exclusive of depreciation and amortization shown separately below	219.8	226.0
Selling, general and administrative expenses	57.5	67.5
Defined benefit pension expense	12.2	13.5
Depreciation and amortization	17.3	16.5
Chapter 11 expenses, net of interest income	4.8	4.5
Research and development expenses	9.5	9.3
Interest expense and related financing costs	9.2	10.3
Restructuring expenses	0.4	2.4
Provision for environmental remediation	1.0	0.4
Other income, net	(13.6)	(12.6)
	318.1	337.8
Income before income taxes and equity in net income of non-filing entities	29.0	26.5
Provision for income taxes	(11.8)	(10.0)
Income before equity in net income of non-filing entities	17.2	16.5
Equity in net income of non-filing entities	35.7	44.4
Net income attributable to W. R. Grace & Co. shareholders	\$52.9	\$60.9

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

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

(In millions) (Unaudited)	Three Months Ended	
	2013	2012
Operating Activities		
Net income attributable to W. R. Grace & Co. shareholders	\$52.9	\$60.9
Reconciliation to net cash provided by (used for) operating activities:		
Depreciation and amortization	17.3	16.5
Equity in net income of non-filing entities	(35.7)	(44.4)
Provision for income taxes	11.8	10.0
Income taxes paid, net of refunds	(1.0)	(0.2)
Defined benefit pension expense	12.2	13.5
Payments under defined benefit pension arrangements	(51.4)	(110.7)
Changes in assets and liabilities, excluding the effect of foreign currency translation:		
Trade accounts receivable	11.3	6.3
Inventories	(10.0)	11.5
Accounts payable	23.9	(17.1)
All other items, net	(22.6)	(23.0)
Net cash provided by (used for) operating activities	8.7	(76.7)
Investing Activities		
Capital expenditures	(19.4)	(22.5)
Transfer to restricted cash and cash equivalents	(1.6)	(6.9)
Net cash used for investing activities	(21.0)	(29.4)
Financing Activities		
Net borrowings under credit arrangements	0.2	0.9
Proceeds from exercise of stock options	6.3	12.0
Net cash provided by financing activities	6.5	12.9
Net decrease in cash and cash equivalents	(5.8)	(93.2)
Cash and cash equivalents, beginning of period	1,064.2	788.6
Cash and cash equivalents, end of period	\$1,058.4	\$695.4

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 Information (Continued)

W. R. Grace & Co.—Chapter 11 Filing Entities

Debtor-in-Possession Balance Sheets

(In millions) (Unaudited)	March 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$1,058.4	\$1,064.2
Restricted cash and cash equivalents	119.9	118.3
Trade accounts receivable, net	121.3	132.6
Accounts receivable—unconsolidated affiliate	12.9	14.1
Receivables from non-filing entities, net	147.5	160.5
Inventories	116.3	106.3
Other current assets	52.0	58.5
Total Current Assets	1,628.3	1,654.5
Properties and equipment, net	432.3	433.5
Deferred income taxes	907.1	935.5
Asbestos-related insurance	500.0	500.0
Loans receivable from non-filing entities, net	281.1	282.1
Investment in non-filing entities	480.7	449.5
Investment in unconsolidated affiliate	90.5	85.5
Other assets	50.9	47.2
Total Assets	\$4,370.9	\$4,387.8
LIABILITIES AND EQUITY		
Liabilities Not Subject to Compromise		
Current liabilities (including \$5.9 due to unconsolidated affiliate) (2012—\$6.0)	\$212.3	\$244.7
Underfunded defined benefit pension plans	75.3	161.0
Other liabilities (including \$21.7 due to unconsolidated affiliate) (2012—\$22.4)	55.8	56.5
Total Liabilities Not Subject to Compromise	343.4	462.2
Liabilities Subject to Compromise	3,626.2	3,617.1
Total Liabilities	3,969.6	4,079.3
Total W. R. Grace & Co. Shareholders' Equity	401.2	308.4
Noncontrolling interests in Chapter 11 filing entities	0.1	0.1
Total Equity	401.3	308.5
Total Liabilities and Equity	\$4,370.9	\$4,387.8

In addition to Grace's financial reporting obligations as prescribed by the SEC, the Debtors are also required, under the rules and regulations of the Bankruptcy Code, to periodically file certain statements and schedules with the Bankruptcy Court. This information is available to the public through the Bankruptcy Court. This information is prepared in a format that may not be comparable to information in Grace's quarterly and annual financial statements as filed with the SEC. These statements and schedules are not audited and do not purport to represent the financial position or results of operations of Grace on a consolidated basis.

3. Asbestos-Related Litigation

Grace is a defendant in property damage and personal injury lawsuits relating to previously sold asbestos-containing products. As of the Filing Date, Grace was a defendant in 65,656 asbestos-related lawsuits, 17 involving claims for property damage (one of which has since been dismissed), and the remainder involving 129,191 claims

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

for personal injury. Due to the Filing, holders of asbestos-related claims are stayed from continuing to prosecute pending litigation and from commencing new lawsuits against the Debtors. Grace's obligations with respect to present and future asbestos claims will be determined through the Chapter 11 process.

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

Out of 380 asbestos property damage cases (which involved thousands of buildings) filed prior to the Filing Date, 16 remain unresolved. Eight cases relate to ZAI and eight relate to a number of former asbestos-containing products (two of which also are alleged to involve ZAI).

Approximately 4,400 additional PD claims were filed prior to the March 31, 2003, claims bar date established by the Bankruptcy Court. (The March 31, 2003, claims bar date did not apply to ZAI claims.) Grace objected to virtually all PD claims on a number of legal and factual bases. As of March 31, 2013, approximately 430 PD Claims subject to the March 31, 2003, claims bar date remain outstanding. The Bankruptcy Court has approved settlement agreements covering approximately 410 of such claims for an aggregate allowed amount of \$151.7 million.

Eight of the ZAI cases were filed as purported class action lawsuits in 2000 and 2001. In addition, 10 lawsuits were filed as purported class actions in 2004 and 2005 with respect to persons and homes in Canada. These cases seek damages and equitable relief, including the removal, replacement and/or disposal of all such insulation. The plaintiffs assert that this product is in millions of homes and that the cost of removal could be several thousand dollars per home. As a result of the Filing, all of these cases have been stayed.

Based on Grace's investigation of the claims described in these lawsuits, and testing and analysis of this product by Grace and others, Grace believes that ZAI was and continues to be safe for its intended purpose and poses little or no threat to human health. The plaintiffs in the ZAI lawsuits dispute Grace's position on the safety of ZAI. In December 2006, the Bankruptcy Court issued an opinion and order holding that, although ZAI is contaminated with asbestos and can release asbestos fibers when disturbed, there is no unreasonable risk of harm from ZAI. In the event the Joint Plan does not become effective, the ZAI claimants have reserved their right to appeal such opinion and order if and when it becomes a final order.

At the Debtors' request, in July 2008, the Bankruptcy Court established a claims bar date for U.S. ZAI PD Claims and approved a related notice program that required any person with a U.S. ZAI PD Claim to submit an individual proof of claim no later than October 31, 2008. Approximately 17,960 U.S. ZAI PD Claims were filed prior to the October 31, 2008, claims bar date, and as of March 31, 2013, an additional 1,310 U.S. ZAI PD Claims were filed. As described above, under the Canadian ZAI Settlement, all Canadian ZAI PD Claims filed before December 31, 2009, would be eligible to seek compensation from the Canadian ZAI property damage claims fund. Approximately 13,100 Canadian ZAI PD Claims were filed by December 31, 2009.

As described in Note 2, in November 2008, the Debtors, the Putative Class Counsel to the U.S. ZAI property damage claimants, the PD FCR, and the Equity Committee reached an agreement designed to resolve all present and future U.S. ZAI PD Claims. The terms of the U.S. and Canadian ZAI agreements in principle have been incorporated into the terms of the Joint Plan and related documents.

Upon the occurrence of the effective date under the Joint Plan, all pending and future PD Claims would be channeled for resolution to the PD Trust. PD Claims other than U.S. and Canadian ZAI PD Claims would be litigated in the Bankruptcy Court or a U.S. District Court, including all claims and defenses that would have been available to the parties prior to the filing of the Chapter 11 Cases as well as any defenses based on the March 31, 2003, claims bar date. Any claims determined to be allowed claims would be paid in cash by the PD Trust. Grace would be obligated to fund the PD Trust every six months in an amount sufficient to enable the PD Trust to pay all such allowed claims and

Trust-related expenses.

All allowed U.S. ZAI PD Claims would be paid by the PD Trust from the ZAI PD account and all allowed Canadian ZAI PD Claims would be paid by the Canadian ZAI property damage claims fund. Grace would have no

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

liability or obligation for asbestos-related ZAI PD claims, except for its obligations to fund the PD Trust's ZAI PD account as described in Note 2.

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

As of the Filing Date, 129,191 PI Claims were pending against Grace. Grace believes that a substantial number of additional PI Claims would have been received between the Filing Date and March 31, 2013, had such PI Claims not been stayed by the Bankruptcy Court.

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

Upon the occurrence of the effective date under the Joint Plan, all pending and future asbestos-related personal injury claims would be channeled for resolution to the PI Trust and Grace would have no liability or obligation for asbestos-related personal injury claims, except for its obligations to fund the PI Trust as described in Note 2.

Asbestos-Related Liability The recorded asbestos-related liability as of March 31, 2013, and December 31, 2012, was \$2,065.0 million and is included in "liabilities subject to compromise" in the accompanying Consolidated Balance Sheets. Grace increased its asbestos-related liability by \$365.0 million in the 2012 fourth quarter to reflect an updated estimate of the value of the consideration payable to the PI Trust and the PD Trust (the "Trusts") under the Joint Plan, assuming emergence from bankruptcy at the end of 2013. As discussed in Note 2, Grace reached an agreement in October 2012 to cash settle the warrant to be issued to the PI Trust at emergence.

The components of the consideration payable to the Trusts under the Joint Plan are as follows:

The warrant to acquire 10 million shares of the Company's common stock for \$17.00 per share, which will be recorded at fair value on the effective date of the Joint Plan. Under the agreement to cash settle the warrant, the warrant will have a value between \$375 million and \$490 million. Based on the current trading range of Company common stock and other valuation factors, Grace estimates the value of the warrant at emergence will be the maximum value of \$490 million.

The deferred payment obligation of \$110 million per year for five years beginning January 2, 2019, and of \$100 million per year for ten years beginning January 2, 2024, which will be recorded at fair value on the effective date of the Joint Plan. Grace estimates the fair value of the deferred payment obligation to be \$547 million at emergence. The value of the deferred payment obligation is affected by (i) interest rates; (ii) the Company's credit standing and the payment period of the deferred payments; (iii) restrictive covenants and terms of the Company's other credit facilities; (iv) assessment of the risk of a default, which if default were to occur would require Grace to issue shares of Company common stock; and (v) the subordination provisions of the deferred payment agreement.

The cash payable by Grace to fund the PI and PD Trusts as discussed in Note 2, which will be recorded at fair value on the effective date of the Joint Plan. Grace estimates the fair value of these payments to be \$528 million at emergence.

As discussed in Note 2, proceeds with respect to all of Grace's insurance policies that provide coverage for asbestos-related claims would be transferred to the PI Trust under the Joint Plan. The recorded asbestos-related insurance receivable and related liability of \$500.0 million at March 31, 2013, is within the reasonable range of possible valuations of these policies at emergence.

Grace periodically evaluates the recorded amount of its asbestos-related liability and may further adjust the liability prior to the effective date of the Joint Plan if it determines that the currently recorded amount no longer represents a reasonable estimate of the value of the consideration payable to the Trusts under the Joint Plan. The

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

recorded amount of the asbestos-related liabilities represents a reasonable estimate of the value of the consideration payable to the PI Trust and the PD Trust based on the range of reasonable valuations for the warrant, deferred payment obligations and other consideration payable to the PI Trust and the PD Trust under the Joint Plan as of March 31, 2013, and December 31, 2012.

The ultimate cost of settling the asbestos-related liability will be based on the value of the consideration transferred to the Trusts at emergence and will vary from the current estimate.

Appeals have been filed in the Third Circuit challenging the District Court order confirming the Joint Plan. If any such appeals are resolved adversely to Grace and the other Joint Plan proponents, and if the Joint Plan cannot be amended to address any deficiencies identified by the Third Circuit in a manner satisfactory to Grace and the other Joint Plan proponents, the Debtors would expect to resume the estimation trial, which was suspended in April 2008 due to the PI Settlement, to determine the amount of its asbestos-related liabilities. Through the PI Claim estimation process and the continued adjudication of PD Claims, Grace would seek to demonstrate that most claims have no value because they fail to establish any significant property damage, health impairment or occupational exposure to asbestos from Grace's operations or products. If the Bankruptcy Court agreed with Grace's position on the number of, and the amounts to be paid in respect of, allowed PI Claims and PD Claims, then Grace believes that the value of its asbestos-related liability could be lower than the recorded amount. However, this outcome would be highly uncertain and would depend on a number of Bankruptcy Court rulings favorable to Grace's position. Conversely, the PI and PD Committees and the PI FCR have asserted that Grace's asbestos-related liabilities are substantially higher than the recorded amount, and in fact are in excess of Grace's business value. If the Bankruptcy Court accepted the position of the PI and PD Committees and the PI FCR, then any plan of reorganization likely would result in the loss of all or substantially all equity value by current shareholders.

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

For each insurance year, Grace's coverage consists of both primary and excess coverage. With one exception, coverage disputes regarding Grace's primary insurance policies have been settled, and those settlement amounts have been paid in full.

Grace has entered into settlement agreements, which are dependent upon the effectiveness of the Joint Plan, with underwriters of a portion of Grace's insurance coverage, which includes the unsettled primary coverage referenced in the preceding paragraph. Under most of these agreements, the insurers have agreed, subject to certain conditions, to pay to the PI Trust (directly or through an escrow arrangement) an aggregate of \$395.2 million in respect of coverage under the affected policies. Under the remaining agreements, the insurers have agreed to reimburse the PI Trust, subject to certain conditions, which will result in a partial reimbursement of the claims actually paid by the PI Trust. Prior to filing the Chapter 11 Cases, Grace entered into settlement agreements with various excess insurance carriers that are not dependent upon the effectiveness of the Joint Plan. The unpaid maximum aggregate amount available under these settlement agreements is approximately \$487 million. Grace had no agreements in place with insurers with respect to approximately \$483 million of excess coverage, which are at layers of coverage that have not yet been triggered. Settlement amounts are generally payable on a percentage of the claims actually paid, which is based on a number of factors including the years over which a claimant was exposed to an asbestos-containing product. Grace estimates that eligible claims would have to exceed \$4.0 billion to access the total \$970 million of coverage. In the event the Joint Plan becomes effective, some of this settled and unsettled coverage will be superseded by the settlement agreements that are dependent upon the effectiveness of the Joint Plan.

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

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Notes to Consolidated Financial Statements (Continued)

3. Asbestos-Related Litigation (Continued)

The amount of insurance recovered on claims by the PI Trust will depend on the aggregate amount of insurance settlements on the effective date of the Joint Plan and a number of factors that will be determined at the time claims are paid including: the nature of the claim, the relevant exposure years, the timing of payment, the solvency of insurers and the legal status of policy rights. Grace estimates that the recorded amount of \$500.0 million is within the reasonable range of possible valuations of these policies at emergence.

4. Inventories

Inventories are stated at the lower of cost or market, and cost is determined using FIFO. Inventories consisted of the following at March 31, 2013, and December 31, 2012:

(In millions)	March 31, 2013	December 31, 2012
Raw materials	\$84.2	\$66.5
In process	48.6	46.1
Finished products	151.2	133.8
Other	33.8	32.2
	\$317.8	\$278.6

5. Debt

Components of Debt

(In millions)	March 31, 2013	December 31, 2012
Debt payable within one year	\$67.5	\$83.4
Debt payable after one year	\$11.7	\$13.4
Debt Subject to Compromise		
Bank borrowings	\$500.0	\$500.0
Accrued interest on bank borrowings	444.6	437.2
Drawn letters of credit	26.5	26.5
Accrued interest on drawn letters of credit	10.0	9.6
	\$981.1	\$973.3
Weighted average interest rates on total debt	3.5	% 3.5

At March 31, 2013, the fair value of Grace's debt payable within one year not subject to compromise approximated the recorded value of \$67.5 million. Fair value is determined based on expected future cash flows (discounted at market interest rates), quotes from financial institutions and other appropriate valuation methodologies. At March 31, 2013, the carrying value of Grace's bank debt subject to compromise plus interest was \$981.1 million. The estimated fair value of the bank debt approximates the carrying value and is estimated using Level 2 inputs; however, because such debt is subject to compromise in Grace's Chapter 11 proceeding, neither carrying values nor market values may reflect ultimate liquidation value.

6. Fair Value Measurements and Risk

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

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

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Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

Fair Value of Debt and Other Financial Instruments

See Note 5 for a discussion of the fair value of Grace's debt. At March 31, 2013, the recorded values of other financial instruments such as cash equivalents, short-term investments, and trade receivables and payables approximated their fair values, based on the short-term maturities and floating rate characteristics of these instruments.

Derivatives

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

The valuation of Grace's fixed-rate natural gas swaps was determined using a market approach, based on natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of natural gas. Current open contracts hedge forecasted transactions until March 2014. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive loss" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At March 31, 2013, the contract volume, or notional amount, of the commodity contracts was 2.8 million MMBtu (million British thermal units) with a total contract value of \$10.8 million.

The valuation of Grace's fixed-rate aluminum swaps was determined using a market approach, based on aluminum futures trading prices quoted on the London Metal Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of aluminum. Current open contracts hedge forecasted transactions until March 2014. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive loss" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At March 31, 2013, the contract volume, or notional amount, of the commodity contracts was 3.0 million pounds with a total contract value of \$2.8 million.

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

From time to time, Grace enters into currency exchange rate forward and/or option contracts to mitigate the effects of exchange rate fluctuations. The valuation of Grace's currency exchange rate forward contracts is determined using both a market approach and an income approach. Inputs used to value currency exchange rate forward contracts consist of: (1) spot rates, which are quoted by various financial institutions; (2) forward points, which are primarily affected by changes in interest rates; and (3) discount rates used to present value future cash flows, which are based on the London Interbank Offered Rate (LIBOR) curve or overnight indexed swap rates.

In November 2007, Grace purchased currency forward contracts to mitigate the effect of currency risk with respect to intercompany loans between its principal U.S. subsidiary and a German subsidiary. As of March 31, 2013, the total notional amount related to the remaining outstanding currency forward contracts was €194.5 million. These derivatives are not designated as hedging instruments under ASC 815 "Derivatives and Hedging".

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Notes to Consolidated Financial Statements (Continued)

6. Fair Value Measurements and Risk (Continued)

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2013, and December 31, 2012:

Items Measured at Fair Value on a Recurring Basis (In millions)	Fair Value Measurements at March 31, 2013 Using			
	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Currency derivatives	\$3.6	\$—	\$3.6	\$—
Commodity derivatives	0.9	—	0.9	—
Total Assets	\$4.5	\$—	\$4.5	\$—
Liabilities				
Currency derivatives	\$0.4	\$—	\$0.4	\$—
Commodity derivatives	0.2	—	0.2	—
Total Liabilities	\$0.6	\$—	\$0.6	\$—