
❖ Distressed Securities Report ❖

December 11, 2008

W. R. Grace & Co. (NYSE: GRA) (BUY)

Price (12/4/08): \$5.10
52-Wk. Range: \$2.95 - \$30.00
Avg. Wtd. Shs.: 72.6 million shares
Market Cap.: \$370 million

Ticker: GRA
Est. Div.: N/A
Yield: N/A

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Investment Summary

We rate the common shares of W. R. Grace & Company (GRA) a *BUY*. On April 2, 2001, GRA filed a voluntary petition for reorganization under Chapter 11 bankruptcy laws in order to address a growing number of asbestos liability claims against the company. According to GRA, 325,000 such claims had been filed as of the date of the company's Chapter 11 filing. Should the Delaware bankruptcy court approve the company's reorganization plan during a March 9, 2009, confirmation hearing, GRA could emerge from bankruptcy as early as May 2009, subject to the plan's follow-on approval by a district court. It is worth noting that, according to the law firm Crowell & Moring LLP, 58 of the 86 US companies that have filed for Chapter 11 because of asbestos liabilities since 1982 have since emerged from bankruptcy.

Although asbestos claimants and creditors presented the bankruptcy court with their objections to GRA's disclosure statement during three confirmation hearings held in October and November of 2008, we are aware of no specific developments that would preclude approval of the reorganization plan and the company's subsequent emergence from bankruptcy in mid-2009. The purchase of 203,000 GRA shares by five company insiders – including the CEO, a division president, and an outside director – during December 2008 might be viewed as a harbinger of GRA's imminent emergence from bankruptcy.

While most analyses of distressed securities lend themselves to an evaluation of a subject company's debt securities, this report focuses instead on GRA's common stock, for several reasons. First, the debt included in GRA's "liabilities subject to compromise" includes only \$845 million in bank borrowings and letters of credit, which are assumed to be repaid with post-bankruptcy debt proceeds after the reorganization plan becomes effective. Moreover, the company's post-bankruptcy debt is expected to consist solely of a draw-down on a \$1.75 billion bank credit facility. As such, there are no publicly traded debt securities in the company's capital structure that could be considered as potential investments by distressed securities investors. Second, in contrast to the other more thinly capitalized companies included in Horizon Research Group's monthly *Bankruptcy Calendar*, GRA has common equity with a current market capitalization of approximately \$370 million, which makes the stock sufficiently liquid for equity investors with a small-capitalization focus. Most other bankrupt companies retain only a sliver of publicly traded equity.

The current valuation of GRA common shares is very attractive in several respects. W. R. Grace's internal 2009 pro forma diluted earnings per share forecast of \$0.75 is predicated on a year-end 2008 bankruptcy emergence date, as well as on the expectation of relatively flat customer end-market demand levels, 3% revenue growth, and 6% "core" EBIT growth during 2009. Relative to that assumed profit level, GRA shares currently trade at a moderate valuation of only 6.8x EPS and 3.5x EBITDA.

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However, in view of the 53% average year-to-date decline in the stock prices of comparable specialty chemicals and building materials companies, which trade at average 2009 P/E and EV/EBITDA valuations of 9.6x and 5.1x, respectively, one could argue that GRA and its competitors currently trade at unsustainably depressed levels. An assumed reversion to a 12x P/E multiple – still below the specialty chemicals and building materials industries' historical average P/E ratios of 21x and 15x, respectively – might serve as a more appropriate valuation benchmark for assessing the fair valuation of GRA. Capitalizing the 2009 pro forma EPS level implied by GRA's reorganization plan financial assumptions at a 12x P/E multiple would suggest a near-term fair value for GRA shares of about \$9 per share, which would represent a 76% premium to the company's recent share price.

Notwithstanding the attractiveness of GRA's valuation under the aforementioned assumptions, one could argue that the reality of challenging global economic conditions warrants a more guarded view regarding the company's near-term fundamental outlook. In particular, the prospect of mid-single-digit average percentage declines in US petroleum consumption and commercial construction activity during 2009 implies that GRA could experience a 3% revenue decline and a 2-percentage-point diminution in its operating margin during 2009, pointing to annual EBITDA of \$330 million and diluted EPS of approximately \$0.14.

It is worth noting that a \$9 share price, relative to \$330 million in projected EBITDA, would point to a still very reasonable EV/EBITDA multiple of 5.4x, roughly on par with the company's industry peers. This suggests that GRA's valuation would be supportable against the backdrop of these more conservative economic and profit growth expectations. It is also worth observing that a sum-of-the-parts valuation scenario, incorporating significant discounts to recent private-market transaction multiples for chemical and building materials companies in order to account for the likely effect of the recent credit market crisis, would imply a longer-term potential per-share price for GRA of \$24, nearly five times GRA's current share price.

Company Description

W. R. Grace operates two principal business segments. Grace Davison, which accounts for approximately 65% of GRA's revenues and pre-tax operating income, manufactures specialty chemicals used in petroleum refining and industrial, consumer, and commercial printing applications (see Exhibit 1). Grace Construction Products, which generates the remaining 35% of GRA's revenues and pre-tax profits, produces chemicals and additives used in the production of concrete and other construction materials.

The Grace Davison segment's three product groups – refining, materials, and specialty technologies – generated 32%, 22%, and 11%, respectively, of GRA's total revenues. The company's refining-related products include fluid catalytic-cracking and hydro-processing

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catalysts, which help refiners break down hydrocarbons in crude oil in order to produce gasoline and diesel fuels, reduce the level of sulfur and other impurities in crude oil, and upgrade heavy oil into lighter petroleum products. GRA's materials technologies include silica-based engineered materials used to manufacture rubber, tires, and plastics; coatings, ink, and paper additives; and sealants and coatings used in consumer products packaging. Moreover, the company's specialty technologies include catalysts used to manufacture resins and silica-based materials used in chemistry and life sciences applications.

Exhibit 1 W. R. Grace & Co.: 2008 Year-to-Date Segment Operating Performance

(amounts in \$ millions)

1Q08-3Q08	Grace Davison				Grace Construction Products			GRA Total ¹
	Refining	Materials	Specialty	Total	Const.	Bldg.	Total	
	Tech.	Tech.	Tech.		Chemicals	Materials		
Net Sales	\$828	\$548	\$285	\$1,662	\$574	\$313	\$887	\$2,549
Year/Year % Chg.	17.4%	9.8%	2.3%	12.0%	3.8%	13.7%	7.1%	10.3%
% GRA Total	32%	22%	11%	65%	23%	12%	35%	100%
Pre-Tax Op. Inc.				\$210			\$115	\$252
Year/Year % Chg.				5.4%			-2.5%	4.1%
% GRA Total				65%			35%	100%
Gross Margin				28.0%			35.1%	30.3%
Pre-Tax Op. Margin				12.6%			13.0%	9.9%

¹ Pre-tax operating income is equivalent to operating income of Grace Davison and Grace Construction Products, less corporate expense.
Source: W. R. Grace & Co.

The Grace Construction Products segment manufactures construction and building materials, which account for 23% and 12%, respectively, of GRA's total revenues. These materials include concrete admixtures and fibers, as well as building materials that protect structures from water, air, and fire penetration. During the first nine months of 2008, this segment sustained a 35% gross margin, well exceeding Grace Davison's 28% gross margin. However, Grace Construction Products' operating margin of 13% only modestly exceeded Grace Davison's 12.6% operating margin during the 2008 year-to-date period.

Bankruptcy, Reorganization, and the Path to Emergence

On April 2, 2001, GRA filed a voluntary petition for reorganization under Chapter 11 in response to the prospective legal and financial pressures of a growing number of asbestos-related personal injury (PI) and property damage (PD) claims against the company. The 2001 bankruptcy filing set the stage for several iterations of restructuring and reorganization initiatives on the part of GRA management. In particular, in November 2004 and January 2005, GRA filed both initial and amended reorganization plans with accompanying disclosure statements (see Exhibit 2). While the January 2005 amended plan was sponsored by GRA and its unsecured creditors and equity holders, the asbestos

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claimants were not proponents of the amended plan. These claimants filed their own reorganization plan in November 2007.

Exhibit 2 W. R. Grace & Co.: Timetable of Bankruptcy and Reorganization Events

Date	Event	Significance
Apr. 2, 2001	filed for Chapter 11 reorganization	GRA filed voluntary petition for reorganization to address growing number of asbestos claims
Nov. 13, 2004	filed reorganization plan and disclosure statement	GRA's first reorganization plan filing with bankruptcy court
Jan. 13, 2005	filed amended reorganization plan	GRA, unsecured creditors, equity holders (but not asbestos claimants) were proponents
Nov. 5, 2007	asbestos claimants filed own reorganization plan	claimants' response to perceived inadequacies of GRA's reorganization plan
Jan. 14, 2008	beginning of bankruptcy court estimation hearing	GRA requested hearing to determine total amount of asbestos PI claims
Apr. 7, 2008	suspension of bankruptcy court estimation hearing	GRA reached agreement-in-principle with PI claimants to settle asbestos claims
Sep. 19, 2008	filed reorganization plan and disclosure statement	PI claimants, equity holders (but not unsecured creditors, PD claimants) were proponents
Oct. 27, 2008	bankruptcy court hearing on disclosure statement	court determined adequacy of information in disclosure statement
Nov. 14, 2008	bankruptcy court hearing on disclosure statement	court scheduled hearing to consider objections to disclosure statement from claimants
Nov. 21, 2008	agreement w/US Zonolite Attic Insulation claimants	agreement would resolve all US ZAI (Zonolite Attic Insulation) PD claims
Nov. 24, 2008	bankruptcy court hearing on disclosure statement	court scheduled hearing to consider objections to disclosure statement from claimants
Mar. 9, 2009	bankruptcy court reorg. plan confirmation hearing	bankruptcy court scheduled date for approval of GRA reorganization plan
timing TBD	district court reorg. plan confirmation hearing	district court approval of reorganization plan required for reorg. plan to become effective
May 2009	prospective reorganization plan effective date	estimated timing assumes 60 days between bankruptcy court confirmation and effective date (after effective date, sole recourse of asbestos claimants will be PI/PD trusts, not debtors)

Source: W. R. Grace & Co. earnings press release, 10Q, 8K, Reorganization Plan, and investor website.

On January 14, 2008, in the wake of a subsequent impasse regarding the fate of GRA's reorganization efforts, GRA requested an estimation hearing in bankruptcy court in order to assess the specific amount of asbestos-related PI claims outstanding against the company. The hearing was suspended in April 2008 when GRA and its PI claimants reached an agreement-in-principle pursuant to the settlement of these claims. About five months later, on September 19, 2008, GRA and its PI claimants and equity holders filed a new reorganization plan and disclosure statement with the bankruptcy court. The key settlement features of this most recent reorganization plan are outlined in Exhibit 3.

Exhibit 3 W. R. Grace & Co.: Terms of September 2008 Reorganization Plan

Asbestos Related Claims

GRA would contribute the following to the Asbestos PI and related Trusts:

(1) Cash of \$359 million

- \$250 million for asbestos PI settlement
- \$109 million related to Cryovac's and Fresenius's payments

(2) Warrants to acquire 10 million GRA shares (one-year term)

- warrant holders can acquire 10 million GRA shares @ \$17 per share

(3) Deferred payments

- \$110 million per annum for five years (1/2/19-1/2/23)
- \$100 million per annum for ten years (1/2/24-1/2/33)

(3) Cash of \$6.4 million to Canadian Zonolite Attic Insulation PD claims

Cryovac would pay \$512.5 million plus 18 million shares Sealed Air stock to Asbestos PI/PD Trusts.

Fresenius would contribute cash of \$115 million to Asbestos PI and PD Trusts.

Other Claims

GRA would pay the following:

(1) Cash of \$1,049 million for existing claims

(2) \$125 million in contingency funds for bank, legal and other claims

US Zonolite Attic Insulation Claims

GRA would pay the following into the PD Trust:

(1) Cash of \$30 million on Effective Date (plus any accrued interest after 4/1/2009)

(2) Cash of \$30 million on third anniversary of Effective Date

(3) Ten deferred payments of \$8 million p.a., beg. 5th anniversary (if ZAI assets below \$10 million)

Ongoing Liabilities

GRA would satisfy other liabilities subject to compromise:

(1) \$352 million for post-retirement benefits, environmental remediation, taxes

Source: W.R. Grace & Co.

In the wake of the filing of GRA's most recent reorganization plan, the bankruptcy court scheduled several hearings to determine the adequacy of information included in the September 19, 2008, disclosure statement and to consider the merits of objections from asbestos claimants. Those hearings occurred on October 27, 2008; November 14, 2008; and November 24, 2008. On November 21, 2008, GRA also reached a separate agreement with the PD claimants who had filed claims pertaining to GRA's involvement in the production of Zonolite Attic Insulation (ZAI). ZAI is an attic insulation product consisting of vermiculite, a mineral that, when subjected to heat, expands into popcorn-like pieces and that contains only trace amounts of asbestos.

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In the wake of these reorganization steps, GRA now awaits a hearing, scheduled for March 9, 2009, during which the bankruptcy court is expected to approve GRA's reorganization plan. Should the court approve the reorganization plan at that time, the plan would then have to be approved by a district court prior to its becoming effective. At least 60 days are expected to transpire between the bankruptcy court's confirmation of the reorganization plan and the plan's effective date. Following the effective date, which would not likely occur before May 2009, the sole financial recourse of asbestos PI and PD claimants would be to two trusts created pursuant to GRA's reorganization, not to GRA itself. These two trusts would constitute qualified settlement funds that would assume and satisfy the liabilities of all current and prospective asbestos PI and PD claims against GRA. As part of its reorganization commitments, GRA is expected to fund these trusts with cash and warrants, as outlined in Exhibit 3. The warrants to acquire 10 million GRA shares were assumed by the company to have an estimated value, based on the Black-Scholes options pricing formula, of about \$50 million.

Two other corporate entities are expected to help fund the post-bankruptcy PI and PD trusts. In 1996, Fresenius USA (the predecessor of Fresenius Medical Care Holdings), a subsidiary of Fresenius AG (FRE3-XE), merged its kidney dialysis business with that of W. R. Grace. The other entity, Cryovac, today a wholly owned subsidiary of Sealed Air Corporation (NYSE: SEE) involved in the manufacture of food packaging products, was a W. R. Grace subsidiary until its 1998 merger with Sealed Air. GRA retained certain liabilities associated with both former subsidiaries following these transactions. Cryovac is expected to contribute cash of \$512.5 million and 18 million shares of SEE stock, as well as \$109 million in funds paid in conjunction with Fresenius, to the Asbestos PI and PD trusts. Fresenius, for its part, would contribute another \$115 million in cash to these trusts.

Industry Context

Exhibit 4 shows a group of specialty chemicals and building materials companies that provides a useful basis for a comparative fundamental analysis of GRA, a company active in both of these sub-sectors. The twelve companies cited in Exhibit 4 are ranked in descending order based on their 2008 year-to-date EBITDA margins. It is worth noting that GRA's year-to-date revenue growth and EBITDA margins were similar to the average growth and margins exhibited by these companies, which sustained an average revenue gain of 9% during both the 2008 calendar third quarter and the first three quarters of 2008. That said, GRA's year-to-date net margin and operating profit growth were moderately below the sector averages. With the exception of Armstrong World (NYSE: AWI), Chemtura (NYSE: CEM), and USG Corporation (NYSE: USG), these companies all achieved positive revenue growth during the third quarter and year-to-date periods.

Most of the companies included in Exhibit 4 attributed their recent revenue gains to foreign exchange benefits and price increases, which generally offset the dilutive effect of

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lower North American sales volumes and higher raw material and energy costs. Among the chemical companies, Celanese Corporation (NYSE: CE), which generates about 90% of its pre-tax profits from specialty chemicals and acetyl products, registered revenue growth of 16% and 18%, respectively, during the third quarter and first nine months of 2008. Strong pricing gains, particularly in Asia, helped drive that performance. Albemarle (NYSE: ALB), which derived about 70% of its year-to-date operating income from catalysts and polymers, achieved 12%-13% revenue growth during the third quarter and year-to-date periods.

Exhibit 4 Profit and Growth of Specialty Chemical and Building Materials Companies

Company	Ticker	YTD 2008 Profit Margin ¹		YTD 2008 Yr/Yr Growth ¹	
		EBITDA	Net Inc.	Revenue	Op. Inc. ²
Celanese Corp.	CE	20%	9%	18%	36%
El Dupont de Nemours	DD	19%	11%	10%	2%
Albemarle	ALB	17%	9%	12%	2%
Rohm & Haas	ROH	15%	6%	15%	-4%
Eastman Chemical	EMN	14%	6%	6%	13%
Armstrong World Ind.	AWI	12%	4%	0%	-11%
W.R. Grace	GRA	12%	3%	10%	0%
Chemtura Corp.	CEM	12%	NM	0%	18%
Valspar Corporation	VAL	11%	4%	7%	-7%
Dow Chemical	DOW	10%	5%	19%	-19%
Owens Corning	OC	10%	NM	24%	9%
USG Corporation	USG	0%	NM	-9%	NM
Average		13%	6%	9%	4%

¹ YTD 2008 growth refers to period 1/1/08-9/30/08 vs. 1/1/07-9/30/07, except for Valspar, for which results represent full fiscal year.

² Reflects operating income before non-recurring items.

Source: Company reports.

Eastman Chemical's (NYSE: EMN) performance chemical, coating, adhesive, and polymer operations have accounted for 56% of the company's revenues during 2008. EMN reported revenue growth of 8% and 6%, respectively, during the third quarter and 2008 year-to-date periods, during which double-digit percentage price increases offset weaker North American volumes. Dow Chemical (NYSE: DOW), for which plastics accounted for 53% of year-to-date operating income, achieved revenue gains of 13% during the third quarter and 19% during the first nine months of 2008. During the year-to-date operating period, a 22% year-over-year increase in average selling prices eclipsed a 5% decline in organic unit volumes for DOW.

Building materials companies, which have been significantly affected by the recent contraction in both residential and commercial construction, have exhibited somewhat weaker trends than chemical companies. The relative profit growth and margin

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performance of these companies is highly relevant to an analysis of GRA because three of these enterprises – Owens Corning (NYSE: OC), Armstrong World Industries, and USG Corporation – emerged from Chapter 11 after having filed for bankruptcy to address asbestos liabilities. Among these building materials companies, Armstrong World Industries, which derives nearly all of its pre-tax profits from residential and commercial construction and flooring products, has registered flat revenues during 2008 (see Exhibit 4). Owing to a weak housing market and a slowdown in commercial construction activity, the company's operating income fell 4% during the third quarter and 11% during the first nine months of 2008.

USG Corporation derived 37% of its year-to-date revenues from its unprofitable US Gypsum operation, with the balance stemming mostly from ceiling products. USG's revenues fell 9% during both the third quarter and year-to-date periods, with wallboard sales affected by a weak housing market and profit results crimped by lower plant capacity utilization. In contrast, Valspar (NYSE: VAL), which relies on coating and paint products for most of its profits, reported 7%-8% revenue increases during both the third quarter and first nine months of 2008. However, VAL's operating income was flat during the third quarter and declined year-over-year by 7% during the first nine months of 2008.

GRA's Recent Financial Performance

During the nine-month period ended September 30, 2008, GRA registered a 4% increase in pre-tax income from core operations against the backdrop of a 10.3% revenue gain (see Exhibit 1). Excluding the favorable effect of currency translation, GRA's revenues would have risen by only 5.1%, buoyed by a 4.3% revenue benefit from the effect of price increases. Moreover, GRA's operating income would have been roughly flat, before giving effect to the material benefit of lower interest costs and reduced Chapter 11 and environmental remediation costs. A lower tax rate and minority interest charge helped drive increases of 51% and 49%, respectively, in GRA's reported net income and earnings per share, the latter of which was modestly diluted by a year-over-year increase in the number of shares outstanding.

During the first nine months of 2008, The Grace Davison and Grace Construction Products segments reported revenue advances of 12% and 7.1%, respectively (see Exhibit 1). On the pre-tax income line, the two segments experienced respective changes of 5.4% and (2.5)%. Favorable currency translation and higher selling prices and sales volumes in most regions drove the Grace Davison segment's year-to-date revenue and profit gains. For Grace Construction Products, on the other hand, raw material and severance costs eclipsed the benefit of currency changes and higher prices and contributed to that segment's year-over-year pre-tax profit decline of 2.5%.

Within the Grace Davison segment, for the year-to-date period revenues rose by 17.4%, 9.8%, and 2.3%, respectively, for the refining, materials, and specialty technologies

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operations, buoyed by catalyst product price and volume gains and foreign exchange benefits. Within Grace Construction Products, the construction chemicals and building materials sub-segments registered revenue gains of 3.8% and 13.7%, respectively.

While GRA's balance sheet currently retains negative equity, its 2008 annualized EBITDA would cover its interest expense by a multiple of 6.8x. Should GRA achieve its pro forma projections and access to its post-bankruptcy credit facility, as assumed in Exhibit 9, the company's debt-to-total capitalization would approximate 86%, while its EBITDA-to-interest coverage ratio would approach 2.5x, by the end of 2009 (see Exhibits 10 and 11). By comparison, the other specialty chemicals and building materials companies in Exhibit 4 registered an average EBITDA-to-interest coverage ratio of 7.9x during 2007. While GRA's leverage ratios suggest that the company would remain a highly leveraged enterprise following its emergence from bankruptcy, the company's debt burden should be supportable, particularly as the economy recovers from the current recession. With respect to the supportability of GRA's debt burden, it is worth noting that the company's aggregate cash from operations was sufficient to fund 94% of its capital expenditures during 2006 and 2007. Moreover, excluding GRA's expenditures on Chapter 11-related liabilities, the company would have generated an average of \$69 million in annual free cash flow during those two years, equivalent to a 19% yield relative to GRA's current equity market capitalization.

Absolute Valuation Analysis

In order to assess the potential valuation of GRA at the time of its emergence from bankruptcy, one can construct an absolute valuation framework based on the prospective worth of the company's two business segments in the context of a theoretical business combination between GRA and another company. An analysis of the valuation multiples associated with recent acquisition transactions in the specialty chemicals and building materials industries is instructive in creating such a framework.

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Exhibit 5 Chemical and Building Materials Industry Private-Market Transactions (amounts in \$ millions, except where otherwise indicated)

Specialty Chemical Companies

Date	Acquirer	Target	Total Consideration	Target Company EBITDA	Sales	EV/ EBITDA	EV/ Sales
Early 2009	Dow Chemical Co.	Rohm and Haas	\$15,225	\$937	\$8,897	16.2X	1.7X
Pending	Hexion Specialty Chemicals	Huntsman Corp.	\$10,600	\$728	\$9,651	14.6X	1.1X
Nov-08	Ashland Inc.	Hercules Inc.	\$3,300	\$392	\$2,136	8.4X	1.5X
Apr-08	Henkel AG	Adhesives/elect. unit of National Starch	£2,700		£1,250		2.2X
Apr-08	Rohm & Haas	FINNDISP	\$85		\$68		1.3X
Nov-07	Hexion Specialty Chemicals	Resin/formaldehyde units of Arkema	€ 44		€ 101		0.4X
Jul-07	Dow Chemical Co.	Wolff Walsrode	€ 540		€ 334		1.6X
Feb-07	Sigma-Aldrich	Epicchem Group Ltd.	\$60		\$40		1.5X
Feb-07	Celanese Corp.	Acetate Products Ltd.	\$112		\$230		0.5X
Average						13.1X	1.3X

Building Materials Companies

Date	Acquirer	Target	Total Consideration	Target Sales	EV/ Sales	
Mar-08	Saint-Gobain	Maxit Group	€ 2,091	€ 1,338	1.6X	
Mar-08	Wolseley plc	5 different small acquisitions	£33	£44	0.8X	
Feb-08	Valmont Industries	70% of West Coast Engineering Ltd.	\$31	\$28	1.1X	
Jan-08	Valmont Industries	Penn Summit Tubular	\$58	\$50	1.2X	
Nov-07	Wolseley plc	5 different small acquisitions	£84	£109	0.8X	
Jul-07	Acuity Brands	Mark Lighting Fixture Co.	\$44	\$22	2.0X	
Feb-07	Mueller Industries	Extruded Metals	\$42	\$356	0.1X	
2007	Saint-Gobain	Multiple acquisitions during 2007	€ 967	€ 1,697	0.6X	
Average						1.0X

Source: Company reports and press releases.

Exhibit 5 includes a tabulation of seventeen recent asset and company acquisitions in these two sectors. The average ratio of total paid consideration relative to annual revenues associated with these acquisitions was 1.3:1 for the specialty chemicals industry and 1:1 for the building materials industry. These ratios can be viewed as analogous to EV/sales multiples. In view of the particularly challenging fundamental pressures on the housing and construction industries during the past twelve months, the observation of a somewhat lower private-market multiple among building materials company transactions is not surprising. The 1.3x average EV/sales multiple associated with specialty chemicals company acquisitions was consistent with an average EV/EBITDA multiple of 13x.

In view of the more pronounced challenges currently confronting building materials companies, as well as the reality of the credit crunch and its adverse implications for the outcome of all debt-financed business combinations, it can be argued that the valuation multiples associated with the acquisitions in Exhibit 5 are not directly applicable to a prospective valuation scenario involving GRA. One might therefore find it prudent to apply a 30% discount to the average multiples implied by these transactions. Extending that reasoning to a sum-of-the-parts valuation analysis of GRA, one could assign EV/sales multiples of 0.9x and 0.7x, respectively, to the annualized 2008 year-to-date revenues of the specialty chemicals and building materials operations of Grace Davison and Grace

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Construction Products. These adjusted multiples represent a 30% discount to the average private-market valuation observed in Exhibit 5.

The resulting analysis points to an enterprise value of \$2.9 billion for GRA (see Exhibit 6). That implied enterprise value would also be consistent with an EV/EBITDA multiple of 7.4x, well below the 13x average EV/EBITDA multiple associated with the three specialty chemicals company transactions in Exhibit 5 for which EBITDA results were available. One could then deduct GRA's \$1.1 billion in pro forma 2008 net debt from the aforementioned enterprise value projection, which would result in an implied equity value of approximately \$1.74 billion, or \$24 per share, for GRA. That implied share price suggests that GRA shares could be poised for nearly a five-fold increase in value, should the equity value implied by the foregoing analysis eventually be realized.

Exhibit 6 W. R. Grace & Co. Sum-of-the-Parts Valuation Analysis

(amounts in \$ millions, except per-share amounts; shares in millions)

	<u>Annualized 2008 Rev.</u>		<u>EV/ Revenues</u>		<u>Enterprise Value</u>		<u>Annualized 2008 EBITDA</u>	<u>EV/ EBITDA</u>
Grace Davison	\$2,217	x	0.9X	=	\$2,037			
Grace Const. Products	1,183	x	0.7X	=	830			
Total	<u>\$3,400</u>				<u>\$2,867</u>	/	\$388	7.4X
Plus Cash					381			
Minus Total Debt					<u>(1,505)</u>			
Equity Value					\$1,743			
Shares Outstanding					72.6			
Equity Value/Share					\$24			
Actual Share Price					\$5.10			
Implied Upside					371%			

Source: W. R. Grace & Co., *Distressed Securities Report* estimates.

Relative Valuation Analysis

W. R. Grace's pro forma financial assumptions related to its September 19, 2008, reorganization plan provide insight into a relative framework for assessing the fair valuation of the company's common shares. Those assumptions point to a 2009 pro forma diluted earnings per share level of \$0.75 (see Exhibit 10). Relative to this pro forma 2009 EPS scenario, GRA trades at a P/E of 6.8x, a 30% discount to the average 2009 P/E of the company's industry peers. In particular, specialty chemicals and building materials companies currently trade at an average 2009 P/E ratio of approximately 9.6x EPS (see Exhibits 7 and 8).

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In view of the 52% and 53% respective average year-to-date declines in the stock prices of the companies in both of these sectors, one could argue that GRA's current P/E valuation of 6.8x is unusually (and unsustainably) depressed. In this vein, a 12x P/E multiple might serve as a more appropriate benchmark for assessing the fair valuation of GRA shares. That target multiple lies in the bottom quartile of the specialty chemicals and building materials industries' historical trailing-twelve-month P/E range of 5x-35x, as well as below both sectors' historical average P/E's of 21x and 15x, respectively. Capitalizing the 2009 pro forma EPS level implied by GRA's reorganization plan financial assumptions at a 12x P/E multiple would suggest a near-term fair value for GRA shares of about \$9 per share, which would represent a 76% premium to the company's current share price.

This fair value estimate lies well below the \$24 per share valuation target implied by the sum-of-the-parts valuation scenario described in the preceding section of this report. Moreover, several considerations suggest that the \$9 per share valuation implied by our relative valuation analysis, while constructive for current GRA investors, is unduly conservative. In particular, a \$9 share price would be consistent with a \$650 million market capitalization. That market capitalization, added to GRA's \$1,124 million in assumed pro forma net debt for calendar 2008, would imply an enterprise value of approximately \$1,775 million, which would be equivalent to a valuation of 4.2x 2009 projected pro forma EBITDA. That valuation would represent an 18% discount to the specialty chemicals and building materials sectors' current average EV/EBITDA multiple of 5.1x (see Exhibits 7 and 8). One could argue that the two sector groups' currently depressed average EV/EBITDA valuation of 5.1x EBITDA is itself poised for significant expansion.

Exhibit 7 Comparative Valuation: W. R. Grace and Specialty Chemicals Companies (amounts in millions)

Company	Ticker	YTD % Chg.	Price 12/4/2008	Shares (millions)	Mkt. Cap	Net Debt	Ent. Value	EBITDA ¹		EV/EBITDA		EPS ²		P/E		Dividend	
								08E	09E	08E	09E	08E	09E	08E	09E	DPS	Yield
Albemarle	ALB	-57%	\$17.88	92	\$1,650	\$761	\$2,411	\$436	\$469	5.5X	5.1X	\$2.60	\$2.70	6.9X	6.6X	\$0.48	2.7%
Celanese Corp.	CE	-73%	11.50	163	1,873	3,036	4,909	1,290	1,118	3.8X	4.4X	3.22	2.25	3.6X	5.1X	0.16	1.4%
Chemtura Corp.	CEM	-83%	1.32	242	320	989	1,309	430	416	3.0X	3.1X	0.44	0.40	3.0X	3.3X	0.20	15.2%
Dow Chemical	DOW	-54%	18.32	939	17,210	9,279	26,489	6,180	4,940	4.3X	5.4X	2.79	2.30	6.6X	8.0X	1.68	9.2%
El DuPont de Nemours	DD	-46%	23.69	908	21,509	8,210	29,719	5,627	5,251	5.3X	5.7X	3.28	2.75	7.2X	8.6X	1.64	6.9%
Eastman Chemical	EMN	-55%	27.56	75	2,070	1,099	3,169	959	822	3.3X	3.9X	5.16	4.18	5.3X	6.6X	1.76	6.4%
Rohm & Haas	ROH	34%	71.19	196	13,932	2,953	16,885	1,560	1,557	10.8X	10.8X	3.34	3.16	21.3X	22.5X	1.64	2.3%
W.R. Grace¹	GRA	-81%	5.10	73	370	1,124	1,494	388	428	3.9X	3.5X	3.57	0.75	1.4X	6.8X	N/A	N/A
Average		-52%						Median:		4.1X	4.8X			6.0X	6.7X		6.3%
								Mean:		5.0X	5.2X			6.9X	8.4X		

¹ 2008 and 2009 EPS and EBITDA estimates for W. R. Grace based on that company's pro forma financial projections.

² Source: Consensus EBITDA and EPS estimates from Thomson Financial.

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Exhibit 8 Comparative Valuation: W. R. Grace and Building Materials Companies (amounts in millions)

Company	Ticker	YTD % Chg.	Price 12/4/2008	Shares (millions)	Mkt. Cap	Net Debt	Ent. Value	EBITDA ²		EV/EBITDA		EPS ²		P/E		Dividend	
								08E	09E	08E	09E	08E	09E	08E	09E	DPS	Yield
Armstrong World Ind.	AWI	-56%	\$17.52	57	\$993	\$193	\$1,186	\$407	\$300	2.9X	4.0X	2.30	1.60	7.6X	11.0X	0.00	0.0%
Owens Corning	OC	-26%	15.04	127	1,549	2,014	3,563	611	592	5.8X	6.0X	1.21	1.03	12.4X	14.6X	0.00	0.0%
USG Corporation	USG	-78%	7.90	99	783	1,204	1,987	15	38	NM	NM	(1.51)	(1.32)	N/A	N/A	0.00	0.0%
Valspar Corporation	VAL	-23%	17.35	100	1,732	985	2,717	379	408	7.2X	6.7X	1.57	1.59	11.1X	10.9X	0.56	3.2%
W.R. Grace¹	GRA	-81%	5.10	73	370	1,124	1,494	388	428	3.9X	3.5X	3.57	0.75	1.4X	6.8X	N/A	N/A
Average		-53%						Median:		4.8X	5.0X			9.3X	10.9X		1%
								Mean:		4.9X	5.0X			8.1X	10.8X		

¹ 2008 and 2009 EPS and EBITDA estimates for W. R. Grace based on that company's pro forma financial projections.

² Source: Consensus EBITDA and EPS estimates from Thomson Financial.

Financial Underpinnings of Comparative Valuation Framework

In order to assess the relevance of the foregoing valuation analysis, one must first consider the merit of the operating and financial underpinnings of GRA's pro forma projections, which are summarized in Exhibits 10 through 12 at the end of this report. The key balance sheet and income statement operating and non-operating assumptions that drive these pro forma financial projections are summarized in Exhibit 9.

Several of these assumptions, including a bankruptcy emergence date of December 31, 2008, and the incorporation of 2.2 million shares of dilution due to the prospective exercise (for cash proceeds of \$170 million) of warrants at the end of 2009, are intended to simplify the accompanying presentation of pro forma analyses summarized in GRA's September 19, 2008, reorganization plan. The application of borrowing and investment return rates of 9% and 2.5%, respectively, as well as the expectation that GRA will incur US and foreign taxes at respective rates of 35% and 30%, also appear reasonable.

GRA's projections that it will utilize \$195 million in net operating loss tax carry-forwards, replace asbestos-related contingencies with bankruptcy emergence contingencies, incur \$20 million in Chapter 11-related costs during its first year of emergence, and recognize \$56 million in pension expenses during 2009 also appear to be reasonable. Furthermore, the assumed transfer of \$359 million in cash, as well as the contribution of warrants and deferred payments, to the Asbestos PI Trust, emanate directly from the reorganization plan settlement terms outlined in Exhibit 3.

Exhibit 9 W. R. Grace & Co.: Assumptions Underlying GRA Pro Forma Projections

Balance Sheet and Financing

December 31, 2008 emergence date
\$1,750 million credit facility (\$1,500 million funded at emergence)
\$381 million in cash and equivalents
9% borrowing rate and 2.5% investment earnings rate

reduction of \$421 million in asbestos-related contingencies
addition of \$125 million in emergence contingencies
utilization of \$195 million of NOL carryforwards (with \$160 million available)

transfer of \$359 million cash, as well as warrants and deferred payments, to Asbestos PI Trust

Income Statement - Non-Operating Assumptions

Elimination of interest expense on pre-petition debt
Introduction of interest expense on \$1,500 million exit financing
\$20 million in Ch. 11 expenses in first year after emergence
35% US effective tax rate and 30% foreign effective tax rate
2.2 million shares of dilution from warrants (assumed exercised on 12/31/09)
foreign exchange rate: \$1.38/euro in 2009
\$56 million in pension expense in 2009

Income Statement - Operating Assumptions

<1% market growth in 2009
8% cost inflation in 2009 (vs. 15% in 2008) for raw materials, energy
change of inventory accounting method to FIFO (49.9% had been valued under LIFO)
(resulting \$12.5 million increase in pre-tax income and \$4.4 million increase in net income)
sales increase of 2.9% (6.0% excluding currency effects) in 2009 (vs. 9.1% in 2008)
Core EBIT increase of 6.3% (12.2% excluding currency effects) in 2009 (vs. 2.1% in 2008)
Core EBITDA increase of 6.6% (12.0% excluding currency effects) in 2009 (vs. 1.8% in 2008)

Source: W. R. Grace & Co.

However, several of the operating assumptions that are outlined in Exhibit 9, and that support GRA's pro forma financial projections and our own comparative valuation analysis, merit closer attention. GRA's pro forma income statement presentation in Exhibit 10 implies revenue growth rates of 9.1% and 2.9%, respectively, for 2008 and 2009. Inasmuch as GRA registered a 10.3% revenue gain during the nine-month period ended September 30, 2008, the company's 2008 pro forma revenue growth assumption seems reasonable (see Exhibit 1). However, GRA's expectation of 2.9% revenue growth in 2009 is underpinned by the related assumption that the company's revenues could increase 6% before giving effect to the impact of currency exchange rate changes. GRA based this expectation on anticipated price increases intended to offset an 8% assumed increase in raw material and energy costs, as well as the attainment of higher sales volumes, the acquisition of new customers, and increased penetration of new geographic markets.

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The execution of price increases to offset part of the effect of raw material cost increases during 2009 may be a reasonable expectation for GRA. However, given that GRA has assumed that its customer end-markets will experience less than 1% growth during 2009 – an appropriately cautious expectation in view of very challenging global economic conditions – one might question whether a 6% gain in constant-currency revenues is attainable by GRA in the near term. Moreover, the related 2009 assumption that the company will achieve “core” EBIT and EBITDA growth of 6%-7% (or 12% growth, excluding the anticipated effect of currency changes) implies that GRA has the potential to sustain flat gross and operating margins of approximately 30% and 8%-9%, respectively, during the same year (see Exhibit 10).

Reframing GRA’s Valuation with a More Conservative Outlook

One might argue that a more cautious fundamental outlook for GRA is warranted. In particular, as Exhibit 1 illustrates, approximately two-thirds of GRA’s sales volume is related to petroleum refining and commercial and residential construction. Should these end-markets experience a mid-single-digit percentage decline in production levels, driving a decrease of similar magnitude in sales volumes for GRA’s refining technologies, construction chemicals, and building materials businesses, then one might expect the company to achieve no better than flat constant-currency revenues and a moderate decline in reported revenues, even in the presence of price increases intended to offset raw material cost inflation. Moreover, it would be reasonable to expect such a sales outlook for GRA to be accompanied by at least a 1-to-2-percentage-point decline in gross and operating margins. It is worth noting that GRA experienced a year-over-year change in operating margin greater than 2 percentage points during only two of the past twelve years.

A more guarded outlook for petroleum production and commercial construction is consistent with the cautionary recent projections articulated by several public and private industry organizations. The US Department of Energy Information Administration’s November 12, 2008, *Short-Term Energy Outlook* projected that US petroleum consumption would fall 1.3% in 2009, in the wake of a 5.4% estimated consumption decline during 2008. It would be reasonable to expect US petroleum production to reflect that weak trajectory of consumption. Moreover, recent projections published by Standard and Poor’s, the American Institute of Architects, and the Portland Cement Association point to expectations regarding prospective declines in US commercial and non-residential construction during 2009 that range between 7% and 14%, or about 10% on average.

Inasmuch as refining technologies and construction products contribute about equally to GRA’s total annual revenues, it would seem reasonable to assign equal weights to these growth outlook ranges for petroleum and construction spending when framing GRA’s exposure to potential declines in end-market demand. The 6% average decline implied by this analysis is consistent with the aforementioned expectation of a mid-single-digit

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percentage decrease in GRA's unit shipments to its key customer groups, partly offset by price increases.

Based on the forecasting scenario characterized in the preceding paragraphs, one could readily envision GRA experiencing a 3% revenue decline during 2009, pointing to total revenues of \$3.3 billion. Moreover, a 2-percentage-point diminution in GRA's operating margin during the same year would result in a 6% operating margin and total operating income of approximately \$200 million. Inasmuch as GRA has experienced a trough operating margin of 5.9% since 1995, this 6% margin assumption appears sufficiently conservative. The aforementioned 2009 revenue assumption of \$3.3 billion would constitute a year-over-year revenue decline of \$100 million, while a \$200 million operating income assumption would represent a \$67 million decrease from GRA's 2008 pro forma operating income projection (see Exhibit 10). Furthermore, a \$67 million operating income change relative to a \$100 million revenue change would be consistent with a 0.7x revenue change/operating income change flow-through rate. This implied flow-through rate appears conservative when viewed against the backdrop of GRA's twelve-year historical average flow-through rate of 0.4x.

Assuming that GRA's non-operating results are identical to those outlined in Exhibit 9, this more conservative level of operating profit would be consistent with 2009 EBITDA of \$330 million and diluted EPS of approximately \$0.14. The \$9 per share price level implied by the valuation analysis mentioned earlier in this report would imply an elevated P/E ratio of 64x relative to this modified EPS level. However, a \$9 share price, coupled with the more conservative \$330 million EBITDA projection, would point to a very reasonable EV/EBITDA multiple of 5.4x, only modestly greater than the current average EV/EBITDA multiple of GRA's industry peers.

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Exhibit 10 W. R. Grace & Co.: Company Pro Forma Income Statement Projections (\$ millions, except per-share amounts; fiscal years ending December 31)

	GRA Projections					Year/Year % Change		
	2006	2007	2007	2008	2009	2007	2008	2009
			Proforma	Proforma	Proforma	Reported	Proforma	Proforma
Net sales	2,826.5	3,115.2	3,115.2	3,400.0	3,500.0	10%	9%	3%
Cost of goods sold	1,923.8	2,147.4	2,147.4	2,384.0	2,441.0			
Gross Profit	902.7	967.8	967.8	1,016.0	1,059.0	7%	5%	4%
Selling, general and administrative expenses	593.8	600.6	583.7	608.0	614.0			
Research and development expenses	65.6	79.6	79.6	85.0	91.0			
Defined benefit pension expense	63.7	52.6	52.6	56.0	56.0			
Operating Income	179.6	235.0	251.9	267.0	298.0	31%	6%	12%
Interest expense and related financing costs	73.2	72.1	168.8	53.0	169.0			
Provision for environmental remediation	30.0	17.0	17.0	6.0	0.0			
Chapter 11 expenses, net of interest income	49.9	86.4	20.0	83.5	19.5			
Other (income) expense, net	(34.3)	(33.1)	(41.8)	(325.5)	(10.5)			
Non-operating expenses	118.8	142.4	164.0	(183.0)	178.0			
Income b/f inc. taxes and minority interest	60.8	92.6	87.9	450.0	120.0	52%	412%	-73%
Benefit from (provision for) income taxes	(8.1)	5.8	16.7	(175.5)	(40.0)			
Minority interest in consolidated entities	(34.4)	(18.1)	(18.1)	(15.5)	(24.0)			
Net income	18.3	80.3	86.5	259.0	56.0	339%	199%	-78%
Basic earnings per share:								
Net income	\$0.27	\$1.15	\$1.23	\$3.60	\$0.78	325%	192%	-78%
Weighted average number of basic shares	67.9	70.1	70.1	71.9	71.9			
Diluted earnings per share:								
Net income	\$0.27	\$1.12	\$1.17	\$3.57	\$0.75	319%	204%	-79%
Weighted average number of diluted shares	68.3	71.6	73.8	72.6	74.8			
Margin Analysis								
Gross Margin	32%	31%	31%	30%	30%			
Operating Margin	6%	8%	8%	8%	9%			
Pre-Tax Margin	2%	3%	3%	13%	3%			
Net Margin	1%	3%	3%	8%	2%			
Interest Coverage Analysis								
EBITDA	293.1	348.4		388.0	428.0			
EBITDA/Interest	4.0X	4.8X		7.3X	2.5X			

Source: W.R. Grace & Co.

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Exhibit 11 W. R. Grace & Co.: Company Pro Forma Balance Sheet Projections (\$ millions, except per-share amounts; fiscal years ending December 31)

ASSETS	GRA Projections				
	2006	2007	2007 Proforma	2008 Proforma	2009 Proforma
Current Assets					
Cash and cash equivalents	536.3	480.5	219.4	359.0	443.0
Investment securities	2.4	100.9	-	22.0	-
Cash value of life insurance policies, net of policy loans	-	77.1	-	-	-
Trade accounts receivable, less allowance of \$5.2 (2006 - \$6.6)	426.3	498.1	-	513.0	520.0
Inventories	284.6	303.5	-	425.0	426.0
Deferred income taxes	37.8	37.7	-	54.0	58.0
Other current assets	81.4	80.7	1,098.0	86.0	105.0
Total Current Assets	1,368.8	1,578.5	1,317.4	1,459.0	1,552.0
Non-current operating assets	-	-	1,023.0	-	-
Net operating loss carryforwards	-	-	135.0	184.0	192.0
Properties and equipment, net of accumulated D&A	664.5	706.1	-	731.0	751.0
Goodwill	116.5	122.3	-	127.0	127.0
Cash value of life insurance policies, net of policy loans	89.2	3.9	-	4.0	-
Deferred income taxes	728.5	767.5	237.9	448.0	430.0
Asbestos-related insurance	500.0	500.0	500.0	-	-
Overfunded defined benefit pension plans	38.4	54.1	-	53.5	54.0
Other assets	131.5	136.6	-	131.5	132.0
Total Assets	3,637.4	3,869.0	3,213.3	3,138.0	3,238.0
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Liabilities Not Subject to Compromise					
Current Liabilities					
Debt payable within one year	3.3	4.7	-	5.0	5.0
Accounts payable	172.7	191.3	-	220.0	276.0
Other current liabilities	272.6	325.1	-	307.0	306.0
Total Current Liabilities	448.6	521.1	521.1	532.0	587.0
Debt payable after one year	0.2	0.3	800.3	1,500.0	1,330.0
Deferred income taxes	58.9	32.7	32.7	48.0	43.0
Minority interest in consolidated entities	65.0	70.8	70.8	62.0	73.0
Underfunded defined benefit pension plans	222.9	169.1	169.1	158.0	159.0
Underfunded pay-as-you-go defined benefit pension plans	126.7	137.9	137.9	137.5	138.0
Deferred payments/Other liabilities	43.3	46.2	46.2	384.5	419.0
Total Liabilities Not Subject to Compromise	965.6	978.1	1,778.1	2,822.0	2,749.0
Liabilities Subject to Compromise					
Pre-petition bank debt plus accrued interest	723.1	783.0	-	-	-
Drawn letters of credit plus accrued interest	16.4	26.9	-	-	-
Income tax contingencies	141.2	89.3	82.4	64.0	62.0
Asbestos-related contingencies	1,700.0	1,700.0	130.0	25.0	-
Environmental contingencies	361.1	368.6	67.9	65.0	51.0
Postretirement benefits	158.9	172.7	157.9	147.0	139.0
Other liabilities and accrued interest	120.9	137.0	36.2	27.0	22.0
Other nonoperating liabilities, including plan of reorganization contingencies	-	-	100.0	-	-
Total Liabilities Subject to Compromise	3,221.6	3,277.5	574.4	328.0	274.0
Total Liabilities Not Subject to Compromise	4,187.2	4,255.6	2,352.5	3,150.0	3,023.0
Commitments and Contingencies					
Shareholders' Equity (Deficit)					
Common stock issued	0.8	0.8	-	1.0	1.0
Paid-in capital	423.8	431.5	-	503.0	672.0
Share capital	-	-	1,021.9	-	-
Accumulated deficit	(487.6)	(405.1)	-	-	-
Treasury stock, at cost; shares: 2007 - 5,351,859 (2006 - 8,064,738)	(96.0)	(63.7)	-	(58.0)	(58.0)
Accumulated other comprehensive income (loss)	(390.8)	(350.1)	-	(348.5)	(347.5)
Retained earnings and other equity items	-	-	(161.1)	(109.5)	(52.5)
Total Shareholders' Equity (Deficit)	(549.8)	(386.6)	860.8	(12.0)	215.0
Total Liabilities and Shareholders' Equity (Deficit)	3,637.4	3,869.0	3,213.3	3,138.0	3,238.0
Debt	743.0	814.9	800.3	1,505.0	1,335.0
Equity	(549.8)	(386.6)	860.8	(12.0)	215.0
Debt/Capitalization	NM	NM	48%	NM	86%

Source: W.R. Grace & Co.

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Exhibit 12 W. R. Grace & Co.: Company Pro Forma Cash Flow Projections (\$ millions, except per-share amounts; fiscal years ending December 31)

	GRA Projections			
	2006	2007	2008	2009
OPERATING ACTIVITIES				
Net income	\$18.3	\$80.3	\$259.0	\$57.0
Reconciliation to net cash provided by operating activities:				
Depreciation and amortization	113.5	113.4	121.0	130.0
Chapter 11 expenses, net of interest income	49.9	86.4	83.0	19.5
(Benefit from) provision for income taxes	8.1	(5.8)	175.0	40.0
Income taxes paid, net of refunds	(51.6)	(51.1)	(60.0)	(56.0)
Minority interest in consolidated entities	34.4	18.1	16.0	24.0
Dividends paid to minority interests in consolidated entities	(6.7)	(12.0)	(25.0)	(12.0)
Interest accrued on pre-petition liabilities subject to compromise	71.3	70.9	44.0	-
Net (gain) loss on sales of investments and disposals of assets	(0.6)	(1.9)	-	-
Defined benefit pension expense	63.7	52.6	56.0	56.0
Payments under defined benefit pension arrangements	(121.5)	(105.7)	(67.0)	(54.0)
Payments under postretirement benefit plans	(13.9)	(5.0)	(7.0)	(8.0)
Net income from life insurance policies	(4.1)	(5.4)	(3.0)	-
Provision for (recovery of) uncollectible receivables	3.5	(0.4)	-	-
Provision for environmental remediation	30.0	17.0	6.0	-
Expenditures for environmental remediation	(10.9)	(9.5)	(1.0)	(14.0)
Expenditures for retained obligations of divested businesses	(3.6)	(1.0)	-	-
Changes assets/liab. exc. bus. acq'd / divested and FX translation:	-	-	-	-
Working capital items (trade acts.rec., inventories and acts. payable)	6.1	(47.6)	(49.0)	49.5
Other accruals and non-cash items	17.1	(2.7)	(304.0)	21.5
Net cash provided by op. activities before Ch. 11 expenses	\$203.0	\$190.6	\$244.0	\$253.5
Cash paid to resolve Ch. 11 contingencies and liabilities subject to compromise	-	(10.3)	(1,791.0)	(25.0)
Chapter 11 expenses paid	(50.3)	(92.1)	(84.0)	(20.0)
Net cash provided by operating activities	\$152.7	\$88.2	(\$1,631.0)	\$208.5
INVESTING ACTIVITIES				
Capital expenditures	(119.2)	(136.9)	(146.0)	(150.0)
Investments in short term debt securities	-	(124.7)	-	-
Purchase of equity investment	-	(6.3)	-	-
Businesses acquired, net of cash acquired	(19.6)	(5.5)	-	-
Proceeds from sale of business / product line	-	21.8	-	-
Proceeds from termination of life insurance policies	0.3	14.8	77.0	4.0
Net investment in life insurance policies	(0.5)	(1.2)	-	-
Proceeds from sales of investments and disposals of assets	9.6	31.1	79.0	22.0
Net cash used for investing activities	(\$129.4)	(\$206.9)	\$10.0	(\$124.0)
FINANCING ACTIVITIES				
Net payment of loans secured by cash value of life insurance policies	(0.1)	(0.1)	-	-
Net (repayments) borrowings under credit arrangements	0.3	8.3	1,500.0	(170.0)
Fees paid under debtor-in-possession credit facility	(2.4)	(2.6)	(3.0)	-
Proceeds from exercise of stock options	24.1	40.1	-	170.0
Net cash provided by (used for) financing activities	\$21.9	\$45.7	\$1,497.0	\$0.0
Effect of currency exchange rate changes on cash and cash equivalents	\$16.4	\$17.2	\$2.0	\$0.0
Increase (decrease) in cash and cash equivalents	61.6	(55.8)	(122.0)	84.5
Cash and cash equivalents, beginning of period	474.7	536.3	480.5	358.5
Cash and cash equivalents, end of period	<u>\$536.3</u>	<u>\$480.5</u>	<u>\$358.5</u>	<u>\$443.0</u>
Change in Working Capital	23.2	(50.3)	(353.0)	71.0
Chgs. Working Capital % Revenues	1%	-2%	-10%	2%
Free Cash Flow (including Ch. 11 costs)	\$33.5	NM	NM	\$58.5
Free Cash Flow per share	\$0.49	NM	NM	\$0.78
Free Cash Flow (excluding Ch. 11 costs)	\$83.8	\$53.7	\$98.0	\$103.5
Free Cash Flow per share	\$1.23	\$0.75	\$1.35	\$1.38

Source: W.R. Grace & Co.