PRELIMINARY OFFICIAL STATEMENT DATED JUNE 8, 1973

NEW ISSUE

In the opinion of bond counsel, interest on the Bonds is exempt under existing statutes, regulations, court decisions and rulings from all present Federal income tax except under certain conditions as explained under the caption "Tax Exemption" herein.



OFFICIAL STATEMENT

LINCOLN COUNTY, MONTANA

$4,950,000

POLLUTION CONTROL REVENUE BONDS
(W. R. Grace & Co. Project)

Series 1973

$1,000,000

INDUSTRIAL DEVELOPMENT REVENUE BONDS
(W. R. Grace & Co. Project)

Series 1973

Payable solely from and secured by a pledge of revenues and receipts derived from the lease of two separate projects by the County to W. R. Grace & Co. The payment of principal of, premium, if any, and interest on the Bonds is unconditionally guaranteed by

W. R. GRACE & CO.

DATED: July 1, 1973 DUE: July 1, as shown below.

The Bonds will be issuable as coupon bonds in the denomination of $5,000 each, registrable as to principal only. Principal and semi-annual interest (January 1 and July 1 commencing January 1, 1974) will be payable at the principal trust office of the Trustee, presently or at the option of the holders at the principal office of as alternate paying agent.

The Bonds will be subject to redemption prior to maturity as more fully described herein.

MATURITY SCHEDULE

Amount	Maturity ( )	Coupon	Price	Amount	Maturity ( )	Coupon	Price
$		% Term Bonds due					

PRICE %
(Plus Accrued Interest from July 1, 1973)

The Bonds of each issue are offered separately, subject to prior sale, when, as and if issued by Lincoln County, Montana and accepted by the Underwriter named below, subject to the approval of legality by Chapman and Cutler, as bond counsel, the approval of certain legal matters by Kutak Rock Cohen Campbell Garfinkle & Woodward, as counsel for the Underwriter, and certain other conditions. It is expected that delivery of the Bonds will be made on or about July 12, 1973, in against payment therefor.

BLYTH EASTMAN DILLON & CO.
INCORPORATED

, 1973

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Official Statement is delivered in final form. Under no circumstances shall this preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under securities laws of any such State.

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offers made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by Lincoln County, Montana, W. R. Grace & Co. or the Underwriter. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of Lincoln County, Montana or W. R. Grace & Co. since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The information set forth herein has been obtained from Lincoln County, Montana and W. R. Grace & Co. and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter.

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OFFICIAL STATEMENT

$4,950,000 POLLUTION CONTROL REVENUE BONDS

(W. R. Grace & Co. Project) Series 1973

$1,000,000 INDUSTRIAL DEVELOPMENT REVENUE BONDS

(W. R. Grace & Co. Project) Series 1973

INTRODUCTORY STATEMENT

This Official Statement is provided to furnish information in connection with the sale by Lincoln County, Montana, a political subdivision of the State of Montana (the "County"), of its Pollution Control Revenue Bonds (W. R. Grace & Co. Project) Series 1973, in the aggregate principal amount of $4,950,000 (the "Pollution Control Bonds"), and its Industrial Development Revenue Bonds (W. R. Grace & Co. Project) Series 1973, in the aggregate principal amount of $1,000,000 (the "Industrial Revenue Bonds") (both such issues of Bonds being collectively referred to herein as the "Bonds"). The Bonds are to be issued pursuant to two separate Indentures of Trust (the "Indentures") each dated as of July 1, 1973, between the County and (the "Trustee"), and two separate Leases (the "Leases"), each dated as of July 1, 1973, between the County and W. R. Grace & Co. (the "Company"). Each issue of the Bonds will provide funds for a project independent of the project to be financed by the other issue of the Bonds, and the Indenture and Lease relating to each project shall operate independently of the other Indenture and Lease.

The Pollution Control Bonds are being issued to provide funds for the acquisition, construction, furnishing and equipping of air and water pollution control facilities (the "Pollution Control Project") for the new vermiculite mill of the Company located in the County. The County is acquiring a leasehold interest in the site of the Pollution Control Project and the buildings, improvements and fixtures thereon (the "Pollution Control Project Leasehold Site") pursuant to a Primary Lease Agreement dated as of July 1, 1973 between the Company as lessor and the County as lessee (the "Pollution Control Project Primary Lease"). The Pollution Control Project is described in further detail under that caption. Pursuant to the Lease relating thereto (the "Pollution Control Project Lease"), the Pollution Control Project will be acquired, constructed and furnished by the County and leased to the Company.

The Industrial Revenue Bonds are being issued to provide funds for the acquisition, construction, furnishing and equipping of certain facilities (the "Industrial Project") at the vermiculite mine of the Company located in the County. The County is acquiring a leasehold interest in the site of the Industrial Project and the building, improvements and fixtures thereon (the "Industrial Project Leasehold Site") pursuant to a Primary Lease Agreement dated as of July 1, 1973 between the Company as lessor and the County as lessee (the "Industrial Project Primary Lease") (both the Pollution Control Project Primary Lease and the Industrial Project Primary Lease being referred to herein as the "Primary Leases"). The Industrial Project is described in further detail under that caption. Pursuant to the Lease relating thereto (the "Industrial Project Lease"), the Industrial Project will be acquired, constructed and furnished by the County and leased to the Company.

The Bonds of each issue will be separately secured by a pledge and assignment of and granting of a security interest in (1) the Lease relating to such issue of Bonds and the revenues and other amounts to be derived from the leasing or other disposition of the Project relating to such issue of Bonds, (2) the Primary Lease relating to such issue of Bonds, and (3) the equipment to be acquired by the County for the Project relating to such issue of Bonds. The payments to be made pursuant to each respective Lease will be sufficient to pay the principal of, premium, if any, and interest on the Bonds of the issue relating to such Lease. In addition, the payment of the principal of, premium, if any, and interest on both issues of the Bonds have been unconditionally guaranteed by the Company to the Trustee for the benefit of the holders of either or both issues of the Bonds pursuant to a single Guaranty Agreement dated as of July 1, 1973 (the "Guaranty").

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Brief descriptions of the County, the Pollution Control Project, the Industrial Project, the Bonds, the Leases, the Primary Leases, the Indentures, the Guaranty and the Company, including its consolidated financial statements, are included in this Official Statement. All references herein to the Leases, the Primary Leases, the Indentures and the Guaranty are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in each separate Indenture and the information with respect thereto included in the aforesaid documents, all of which are available for inspection in the office of the County Clerk.

THE COUNTY

The County is a political subdivision existing under the laws of the State of Montana. Pursuant to the provisions of the Industrial Development Projects Act of 1965, Sections 11-4101 through 11-4110, R.C.M. 1947, as amended (the "Act"), the County is authorized to acquire, construct, equip, own and lease each of the two Projects. The County is empowered by the Act to issue the Bonds, to lease the Projects to the Company and to secure the Bonds by a pledge of the separate Leases and the revenues and other amounts to be derived from the leasing or other disposition of the particular Project, the Primary Leases and the equipment to be acquired by the County for each Project. To accomplish such actions, the County is authorized to enter into the Leases, the Primary Leases and the Indentures.

THE POLLUTION CONTROL PROJECT

The Company owns and operates a vermiculite mine in the County. Vermiculite is a mineral used in the construction industry as a concrete aggregate, in fireproofing and in insulation applications. It has horticultural uses as well.

Vermiculite processing operations at the mine have been contributing causes of air and water pollution in the County. In order to comply with appropriate State and Federal standards for the control of air and water pollution the Company determined that the construction of a new vermiculite processing mill (the "Mill") was required.

The Mill, which has been designed to comply with the applicable air and water pollution control standards, embodies a new vermiculite ore beneficiation process which is unique and capable of controlling the pollutants in both the water and air streams from the Mill.

Described in terms of its principal components the Pollution Control Project will embody:

I Vermiculite Recovery System

A new wet recovery process which will float salable vermiculite ore away from worthless rock and other matter and will provide for entrapment of asbestos fibers which are found along with the vermiculite ore and are classified as a hazardous air pollutant.

II Vermiculite Tailings Disposal Facility

In the Mill, clay, sand, rock and some vegetable matter are removed from the process streams. These materials are classified as "tailings" and they have no value to the final product. A system of tailings disposal has been developed and a complete process water recycle system has been incorporated which minimizes the need for fresh water for the process and contributes no flow to nearby streams.

Some of the major components of the tailings and process water recirculation systems are:

(a) *90' Thickener*

A 90' diameter thickener (clarifier) removes fine tailings from the process water.

(b) *Cyclones*

Eight cyclones are installed in conjunction with the 90' thickener to remove fine tailings from the water stream before this water stream arrives at the 90' thickener.

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(c) 45' *Thickeners*

Four 45' thickeners (clarifiers), one of which serves as a surge tank for Mill process water, remove tailings from the process water stream. All four of these 45' thickeners will be utilized to provide a final cleaning for the process water before it is reused in the Mill. The thickened underflow (fine tails sludge) from these thickeners will be moved by new pumps and associated piping to the newly constructed fine tailings collection system.

(d) *Tailings Sumps and Pumps*

Sump tanks and pumps installed with the attendant piping systems and instrumentation to transport tailings, both fine and coarse, to the thickeners noted above, or to the coarse tailings holding area.

III Tailings Impoundment Facility

The Mill is located on a mountainside above a drainage system. To prevent tailings from entering the drainage system and to provide a location suitable for holding the fine tailings that are being removed from the water, a major tailings impoundment dam was required.

This dam is a multi-stage development. The first stage is over 50' high at the center and the crest is nearly 900' long. The dam is constructed in such a location that any washing that may occur in the slopes of the previous tailings piles and the new holding area for coarse tails will enter the tailings impoundment rather than the streams. The fine tailings underflow from the 90' thickener and 45' thickeners noted above, is routed by pipeline some 2,200 feet and deposited in this tailings impoundment.

IV Concentrate Drying Facility

The Mill incorporates the use of a fluid bed dryer system which dries the concentrate and cyclone and bag house particulate collection systems.

V Screen Plant

In the screen plant vermiculite which varies in size is segregated into various size categories. Particulate matter generated as a result of this operation will be controlled by use of the following categories of equipment.

(a) Dust collection

(b) Vacuum cleaning

(c) Floor sweeping bins

(d) Air shower

(e) Closed storage

In addition the Pollution Control Project includes all the mechanical and operating equipment required to make the Mill an integral processing operation along with buildings, process piping, instrumentation, electrical service and vermiculite ore handling and conveying equipment.

The Montana State Department of Health has certified that the Pollution Control Project is in furtherance of air and water pollution control.

The four tracts of land on which the Pollution Control Project is located are included in the Pollution Control Project Primary Lease between the County and the Company.

THE INDUSTRIAL PROJECT

The Industrial Project involves the construction of a vermiculite ore storage and blending facility (the "Facility").

The Facility consists of pivotal stacker and reclaiming equipment housed in a temperature-controlled building to permit all weather operational capability. The stacking and reclaiming equipment both operate from a center pivot point in the building and are assigned independent operating pie-shaped

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segments within a circular area 252' in diameter. The building is of a wood truss design with plywood sheeting and shingle roofing. The building is of a modified dome configuration, 285' in diameter at the base and 105' high at the center.

Operating practices call for the ore feed from the vermiculite mine to be conveyed to the top center of the building, where it is picked up by the stacker equipment and distributed to the floor of the Facility in a continuous pile within the stacker's operating segment of the building. Once the stacking limit conditions are reached, the stacker is moved to an empty segment of the building and is replaced by the reclaimer. The stacker continues to fill the new segment and the reclaimer initiates blending of the ore to a uniform feed and recovery from the pile by pulling the ore to a center discharge beneath the floor of the structure.

The tract of land on which the Facility is located is included in the Industrial Project Primary Lease between the County and the Company.

THE BONDS

The Bonds of each issue are limited obligations of the County and are payable solely out of the revenues and other amounts derived from the leasing or sale of the Project relating to such issue. Neither the State of Montana, nor the County, nor any other political subdivision of such State or County shall be obligated to pay the principal of the Bonds or the interest thereon or other costs incident thereto except from the revenues and other security pledged therefor. The Bonds and interest coupons do not constitute or give rise to a pecuniary liability of the State of Montana, the County or any other political subdivision of such State or County or a charge against the general credit or taxing powers of the State of Montana, the County or any other political subdivision of such State or County. Each issue of the Bonds is separate from the other issue of the Bonds and a default on one issue of the Bonds does not in itself constitute a default on the other issue of the Bonds.

The Bonds of each issue will be dated as of July 1, 1973, and will bear interest from their dates at the rates and mature in the amounts and on the dates set forth on the cover page of this Official Statement. Interest will be payable semi-annually on January 1 and July 1 of each year, commencing January 1, 1974.

The Bonds will be issued as coupon bonds in the denomination of $5,000 each, registrable as to principal only. Principal, premium, if any, and interest are payable at the principal office of , in the City of , , appointed in the Indentures as Trustee or at the option of the holder at the principal office of as alternate paying agent.

The Bonds of each issue are non-callable for redemption prior to July 1, 1983, except in the event:

(1) the particular Project or any portion thereof is damaged or destroyed or taken in a condemnation proceeding to which Section 6.2(b) of the Lease relating to such Project is applied (see paragraph (2) under the caption "The Leases—Damage, Destruction and Condemnation" herein);

(2) the Company shall exercise its option to prepay the rentals and purchase the County's interest in the particular Project as provided in Section 10.1(a) of each Lease (see paragraph (1) under the caption "The Leases—Company's Option to Prepay Rentals and Purchase Project" herein);

(3) the Company shall be obligated to prepay the rentals and purchase the County's interest in the particular Project as provided in Section 10.2 of each Lease, which provides that the Company shall prepay the rentals and purchase the County's interest in the particular Project if:

(a) such Project or a substantial portion thereof or other property of the Company in connection with which the Project is used shall have been damaged or destroyed to such an extent that the Company deems it not practicable to rebuild, repair and restore such Project;

(b) there is a condemnation of all or substantially all of such Project or the taking by eminent domain of such use or control of such Project or other property of the Company in connection with which such Project is used as to render such Project unsatisfactory to the Company for its intended use; or

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(c) as the result of any changes in the Constitution of the State of Montana or the Constitution of the United States of America or of any legislative or administrative action or of any final decree, judgment or order of any court or administrative body, the Lease relating to such Project shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in such Lease.

If called for redemption in any of such events described above (whether before or after July 1, 1983), the Bonds shall be subject to redemption in whole or in part by lot at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date.

The Bonds of each issue are also subject to redemption prior to maturity on any interest payment date on or after July 1, 1983, in whole or in part by lot at the redemption prices (expressed as percentages of principal amount) set forth in the table below, plus accrued interest to the redemption date.

Redemption Date (Dates Inclusive)	Redemption Price
July 1, 1983 to June 30, 1984	103 %
July 1, 1984 to June 30, 1985	102½%
July 1, 1985 to June 30, 1986	102 %
July 1, 1986 to June 30, 1987	101½%
July 1, 1987 to June 30, 1988	101 %
July 1, 1988 to June 30, 1989	100½%
July 1, 1989 and thereafter	100 %

The Bonds which mature on July 1, 1998, are also subject to redemption, pursuant to the terms of a mandatory sinking fund provided in the Indenture relating to each issue of Bonds, on July 1, 19 , and on each July 1 thereafter to and including July 1, 1997, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redempuon date. Funds will be provided through rentals from the Lease relating to such issue of Bonds sufficient to redeem the following principal amounts of such Bonds on the dates set forth in the table below:

	Principal Amount	
July 1 of the Year	Pollution Control Bonds	Industrial Revenue Bonds

When all sinking fund payments have been made, a balance of $ principal amount of Pollution Control Bonds will mature on July 1, 1998, unless otherwise previously retired and a balance of $ principal amount of Industrial Revenue Bonds will mature on July 1, 1998, unless otherwise previously retired.

The principal amount of the Bonds of each issue to be retired pursuant to the sinking fund relating to such issue shall, at the option of the County, be reduced by the principal amount of any such Bonds which at least 45 days prior to said sinking fund redempuon date:

(1) have been delivered to Trustee for cancellation, or

(2) have been redeemed (otherwise than through the operation of the sinking fund) and cancelled by Trustee and not theretofore applied as a credit against any sinking fund redempuon obligation for that particular issue of Bonds.

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No further interest shall accrue on the principal of any Bonds called for redemption after the redemption date if payment therefor has been duly provided. All coupons for interest thereon maturing subsequent to such date shall be void.

THE LEASES

The following is a summary of certain provisions of the Pollution Control Project Lease and the Industrial Project Lease (which contain essentially the same terms). The two Leases will operate independently of each other, and a default under one would not in itself constitute a default under the other.

Issuance of the Bonds: The County has agreed to acquire and construct the Projects in accordance with plans and specifications for each Project as the same are from time to time amended by the Company. The equipment acquired by the County relating to each Project (the "Leased Equipment") shall be the property of the County and subject to the Lease relating to such Project. The County and the Company have agreed to use their best efforts to cause the Pollution Control Project to be completed by January 1, 1974, and the Industrial Project to be completed by January 1, 1974, but if for any reason such Projects are not completed by such dates there will be no diminution in or postponement of the rentals required by the Lease relating to such Project.

The County is issuing the Pollution Control Bonds and the Industrial Revenue Bonds to provide for the acquisition, construction and equipping of each Project and will deposit the proceeds of each issue of Bonds with the Trustee. A sum equal to interest on the Bonds from their date to January 1, 1974, will be deposited in the Bond Fund relating to such issue. The balance of the proceeds from the sale of each issue of Bonds will be deposited in the Construction Fund relating to such issue. The County has authorized the Trustee to use the amounts in such Construction Fund to pay the costs incurred in connection with the issuance of such respective issue of the Bonds and the acquisition and construction of each respective Project. All moneys remaining in such Construction Fund after the completion of the Project relating thereto will be deposited in the respective Bond Fund except for any amounts the Company shall have directed the Trustee to use to purchase Bonds of the issue relating to such Construction Fund on the open market.

If the moneys in either Construction Fund are not sufficient to pay the cost of the related Project in full, the Company agrees to complete such Project at its own expense. In such event, the Company shall not be entitled to any reimbursement for such excess expenses from the County, the Trustee or the holders of the Bonds, nor shall it be entitled to any diminution in or postponement of the rentals payable on such Lease.

Investment of Moneys Held Under the Indentures: Any moneys held as a part of either Construction Fund or either Bond Fund shall, to the extent permitted by law, be invested or reinvested by the Trustee, at the request of the Company, in (1) bonds, treasury notes and other evidences of indebtedness of, and those unconditionally guaranteed as to the payment of principal and interest by, the United States of America, (2) bonds and notes of the Federal National Mortgage Association, (3) obligations of the Federal Intermediate Credit Corporation, (4) obligations of Federal Banks for Cooperatives, (5) bonds and notes of Federal Home Loan Banks, or (6) any other investments, to the extent then permitted by law.

The County, through its Board of County Commissioners, and the Company certify and covenant with the purchasers and holders of the Bonds that moneys on deposit in any fund or account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from other sources, will not be used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 103(d) of the Internal Revenue Code of 1954, as amended, and any lawful regulations promulgated thereunder

Term of the Leases: The term of each Lease shall commence as of July 1, 1973, and shall end on July 1, 1998, or such earlier date as the Company may prepay the rentals and purchase the County's interest in the Project relating to such Lease

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Rental Payments: Rental payments on each Lease are due on or before 10:00 o'clock a.m. (local time in the city of the principal office of the Trustee) on December 29 and June 28 of each year commencing December 29, 1973 in an amount which, together with other moneys available in the respective Bond Fund, will equal the sum of the interest and principal (if any) required to be paid on the issue of Bonds relating to such Lease (including amounts required for sinking fund redemptions) on the next January 1 or July 1. The Company will pay additional rental in a sum equal to the fees and expenses of the Trustee and any paying agent under the respective Indenture.

In the event the Company fails to make any required rental payment, the obligation to make such payment shall continue until the amount in default shall have been paid, together with interest at the rate of 8% per annum. All rentals are assigned to the Trustee, and the Company will pay such amounts directly to the Trustee.

The Company's obligation to make rental payments pursuant to each Lease is absolute and unconditional and not affected by any claim the Company may have against the County. All rental payments required of the Company will be payable free of any deductions and without abatement or set-off.

Taxes: The Company agrees that during the term of each Lease it will pay all taxes and governmental charges that may at any time be assessed or levied against or with respect to the Project relating to such Lease, and all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of such Project, provided that the Company may contest the validity of such taxes, assessments and other charges and may permit such amounts to remain unpaid during the period of any such contest and any appeal therefrom unless such nonpayment shall endanger the lien of the Indenture relating to such Project or any part thereof will be subject to loss or forfeiture.

Insurance: The Company agrees to insure each Project in such amounts and against such loss or damage as companies similarly situated insure similar properties. The Company also agrees to carry public liability insurance with reference to each Project.

Damage, Destruction and Condemnation: Unless the Company shall have been required to prepay the rentals and purchase the County's interest in the affected Project pursuant to Sections 10.2(a) or (b) of the Lease relating to such Project (see paragraphs (1) and (2) under the caption "The Leases—Company's Obligation to Prepay the Rentals and Purchase the Projects" herein), if such Project or any portion thereof is destroyed in whole or in part or is damaged by fire or other casualty, or if title to, or the temporary use of such Project or any part thereof shall be taken under the exercise of the power of eminent domain, the Company shall continue to be obligated to make the rental payments required under the Lease relating to such Project. The net proceeds of any insurance proceeds or any condemnation award shall be deposited in the Bond Fund relating to such Project and shall be applied in one or more of the following ways as elected by the Company:

(1) the prompt repair, restoration, relocation, modification or improvement of such Project by the Company; or

(2) the redemption of the Bonds relating to such Project; provided, that no part of the net proceeds may be applied for such redemption unless

(a) all of such Bonds are to be redeemed in accordance with such Indenture upon the prepayment of the rentals and purchase of such Project pursuant to Sections 10.2(a) or (b) of such Lease, or

(b) if less than all of such Bonds are to be redeemed, the Company shall furnish to the County and the Trustee an acceptable certificate stating (i) that the property that was damaged or destroyed or was taken by such condemnation proceedings is not essential to the Company's use or possession of such Project or (ii) with regard to the Pollution Control Project, that such Project has been repaired, restored, relocated, modified or improved to accomplish at least the same degree of pollution control as existed prior to the damage, destruction or condemnation or with regard to the Industrial Project that such Project has been repaired, restored, relocated, modified or improved to enable Lessee to receive the same utilization of such Project as existed prior to the damage, destruction or condemnation.

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In the event the net proceeds are insufficient, the Company will nonetheless complete the work and will pay any cost in excess of the amount of the net proceeds.

Assignment, Merger and Release of Obligations of Company: Under certain conditions the Company may assign either Lease, but such assignment will not operate to relieve the Company of its primary liability under such Lease. The Company may consolidate with or merge into, or dispose of all or substantially all of its assets to another corporation, provided the Company is the surviving corporation or the surviving corporation is a corporation organized in the United States, that such surviving corporation is a corporation either organized under the laws of or duly qualified to do business as a foreign corporation in the State of Montana and assumes in writing all obligations of the Company under such Lease.

Company's Option to Prepay the Rentals and Purchase the Projects: The Company shall have the option to prepay the rentals relating to and purchase the County's interest in either Project and terminate the related Lease:

(1) if unreasonable burdens or excessive liabilities shall have been imposed upon the County or the Company with respect to the Project relating to such Lease or the operation thereof, including without limitation, the imposition of federal, state or other ad valorem property, income or other taxes which are not being imposed on the date of such Lease, other than ad valorem taxes presently levied upon privately owned property used for the same general purposes as such Project, in which case the prepayment and purchase price will be a sum sufficient to redeem all Bonds relating to such Lease then outstanding under the Indenture relating to such Lease and to pay all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of such Bonds; and

(2) at any time, so long as the Company is not in default under the Lease relating to such Project, in which case the prepayment and purchase price will be the sum specified in (1), plus $100; provided however in the event the Company prepays prior to July 1, 1983, the Bonds relating to such Lease may not be redeemed prior to July 1, 1983 and the amount deposited in connection with the redemption of such Bonds shall be sufficient to pay interest on such Bonds to July 1, 1983.

Company's Obligation to Prepay the Rentals and Purchase the Projects: The Company is obligated to prepay the rentals relating to and purchase the County's interest in either Project at any time if any of the following shall have occurred:

(1) such Project or a substantial portion thereof or other property of the Company in connection with which such Project is used shall have been damaged or destroyed to such an extent that the Company deems it not practicable and desirable to rebuild, repair and restore such Project;

(2) there is a condemnation of all or substantially all of such Project or a taking by eminent domain of such use or control of such Project or other property of the Company in connection with which such Project is used as to render such Project unsatisfactory to the Company for its intended use; or

(3) as a result of any change in the Constitution of the State of Montana or the Constitution of the United States of America or of any legislative or administrative action or of any final decree, judgment or order of any court or administrative body, the Lease relating to such Project shall have become void or unenforceable or impossible of performance with the intent and purpose of the parties as expressed in such Lease.

In such case, the prepayment and purchase price shall be the sum sufficient to redeem all Bonds relating to such Project then outstanding under the Indenture relating to such Project and to pay all reasonable and necessary fees and expenses of the Trustee accrued and to accrue through final payment of such Bonds.

The Company has agreed to purchase and the County has agreed to sell the County's interest in each Project for $100 at the cancellation, termination or expiration of the term of the Lease relating to such Project and following full payment of the Bonds relating to such Project or provision for payment thereof having been made in accordance with the provisions of the Indenture relating to such Project.

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Defaults: Each Lease provides that the happening of one or more of the following events will constitute an "event of default":

(1) failure of the Company to pay the rentals required to be paid under such Lease which continues for the lesser of a period of forty-eight hours after notice from the Trustee or a period of three days;

(2) failure of the Company to observe and perform any other of its covenants, conditions or agreements under such Lease which continues for a period of thirty days after notice from the County or the Trustee, unless extended by the County and the Trustee, provided if the failure can not be corrected in the applicable period, it shall not constitute an event of default if corrective action is instituted by the Company within the applicable period and diligently pursued until the default is corrected; or

(3) certain events of bankruptcy, dissolution, liquidation or reorganization by the Company.

The occurrence of an event of default under one Lease does not in itself constitute an event of default under the other Lease.

Under the terms of each Lease, certain of the Company's obligations, other than the obligations to make rental payments under such Lease, pay the fees and expenses of the Trustee, pay taxes and other governmental and utility charges, may be suspended if by reason of *force majeure*, as defined in such Lease, the Company is unable to carry out such obligations.

Remedies: Upon the happening of an event of default the County may:

(1) declare an amount equal to all amounts then due and payable on the Bonds relating to the Lease under which such default has occurred, whether by acceleration or maturity or otherwise, to be immediately due and payable as liquidated damages;

(2) re-enter and take possession of the Project relating to the Lease under which a default has occurred without terminating such Lease, and sublease such Project for the account of the Company, holding the Company liable for the difference in the amounts payable by such sublessee and the amounts payable by the Company under such Lease;

(3) have access to and make copies of the books and records of the Company relating to such Project; and

(4) take whatever action at law or in equity may appear necessary or desirable to collect the rent then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Lease under which a default has occurred.

Amendments, Changes and Modifications: No amendment, change or modification of either Lease is permissible without the written consent of the Trustee. Pursuant to the provisions of each Indenture, the consent of the holders of at least two-thirds of the principal amount of all Bonds then outstanding under such Indenture is also required for any such amendment, change or modification of the applicable Lease except for amendments, changes or modifications required (i) by the provisions of such Lease or such Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission, (iii) so as to further describe and identify the Project relating to such Indenture or (iv) in connection with any other changes which in the judgment of the Trustee do not prejudice the Trustee or the holders of Bonds under such Indenture.

THE PRIMARY LEASES

The following is a summary of certain provisions of the Pollution Control Project Primary Lease and the Industrial Project Primary Lease (which contain essentially the same terms). The two Primary Leases will operate independently of each other, and a default under one would not in itself constitute a default under the other.

Term of Primary Leases and Rental: Each Primary Lease shall be for a term of 25 years and one day, commencing as of July 1, 1973 and ending on July 2, 1998. The County promises to the Company as rental for the use of each Leasehold Site the performance by the County of its obligations and agreements under the applicable Lease relating to the disbursements of the proceeds from the sale of the Bonds relating to such Lease to pay the costs incurred in connecuon with the issuance of such Bonds and the

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acquisition and construction of the applicable Project. Upon payment in full of the Bonds relating to su Primary Lease (or provision for payment thereof having been made in accordance with the provisions the Indenture relating thereto) the Company shall be entitled to terminate such primary Lease prior to t end of the term of such Primary Lease upon written notice to the County and Trustee accompanied by payment from Company to the County of $50.

Additions, Modifications and Improvements: The Company may make additions, modifications a improvements to any portion of either Leasehold Site and any such improvements, extensions, additions substitutions shall be subject to the Primary Lease relating to such Leasehold Site.

Assignment, Subleasing, Mortgaging and Selling: Except as provided in the Leases and the Indentur the County agrees that it will not assign the Primary Leases, and shall not sublease, mortgage, sell, assig transfer or convey the Projects or its interest in the Projects.

Default: Each Primary Lease provides that an "event of default" shall have occurred upon the failu by the County or the Company to observe and perform any covenant, condition or agreement to performed or observed by such party for a period of thirty days after written notice, specifying such failu and requesting that it be remedied, shall have been given to both the County and Trustee by the Compa in the event of a failure by the County and to the Company by the County and Trustee in the event o failure by the Company, unless extended by written agreement of the notifying party or parties. If t failure stated in the notice be such that it cannot be corrected within the applicable period, it shall n constitute an event of default if corrective action is instituted within the applicable period and diligen pursued until the default is corrected.

Remedies: Each Primary Lease provides that the Company or County has any available remedy law or in equity upon the occurrence and continuance of an event of default; provided, however, that remedy may be exercised in any manner which may impair the payment of principal of, premium, if a or interest on any of the Bonds of the issue relating to such Primary Lease.

Amendments, Changes and Modifications: Subsequent to the issuance of the Bonds and prior to t payment in full of each issue of Bonds (or provision for the payment thereof having been made accordance with the provisions of the Indenture relating to such issue of Bonds) the Primary Lease relati to such issue of Bonds may not be effectively amended, changed, modified, altered or terminated with the written consent of the Trustee pursuant to such Indenture.

THE INDENTURES

The following is a summary of certain provisions of the two Indentures (which contain essentially same terms). The two Indentures operate independently of each other, and a default under one would in itself constitute a default under the other.

Pledge and Security: Pursuant to each Indenture, all rental payments under the Lease relating to su Indenture shall be deposited in the applicable Bond Fund to be used for the payment of the principal premium, if any, and interest on the Bonds authorized by such Indenture. Such rental payments and oth revenues derived from the applicable Project, the Lease, the Primary Lease and the Leased Equipme relating to such Project have also been assigned to the Trustee under the Indenture relating to such Proj as security for the payment of the Bonds authorized by such Indenture.

Covenants of the County: With respect to each Indenture, the County has agreed that, so long as of the Bonds under such Indenture are outstanding, the Trustee may enforce all rights of the County un the applicable Lease and all obligations of the Company under such Lease for the benefit of the holder such Bonds. So long as any Bonds are outstanding under such Indenture, the County will not sell, conv mortgage, encumber or otherwise dispose of the Project relating to such Indenture, except as provided such Indenture and Lease.

Subordination to Lease: The rights and privileges of the Trustee and the Bondholders under e Indenture are specifically made subject and subordinate to the rights and privileges of the Company forth in the Lease and the Primary Lease relating to such Indenture.

Application of the Bond Fund: Each Bond Fund, into which the semi-annual rental payments deri from the Project relating to such Bond Fund and certain other amounts specified in each Indenture wil

deposited, will be in the custody of the Trustee. While any Bonds of the particular issue are outstanding, moneys in such Bond Fund will be used for the payment of principal of, premium, if any, and interest on such Bonds and for redemption of such Bonds at or prior to maturity. Whenever the amount in such Bond Fund in excess of the amount, if any, required for payment of past due interest on any Bonds or for payment of any Bonds theretofore matured or called for redemption, is sufficient to redeem at least $25,000 principal amount of the Bonds outstanding at the applicable redemption price under the applicable Indenture and to pay interest to accrue thereon prior to such redemption, the County covenants to take the necessary steps to redeem on the next succeeding redemption date such amount of the Bonds issued under such Indenture as will exhaust all such moneys in such Bond Fund as nearly as may be.

Discharge of Lien: The lien of each Indenture shall be discharged if:

(1) the County has paid or caused to be paid to the holders and owners of the Bonds and coupons relating to such Indenture the principal, premium, if any, and interest to become due at the time and in the manner stipulated;

(2) the County shall have performed all of its covenants and promises in such Bonds and such Indenture; and

(3) the County shall have paid or caused to be paid to the Trustee, or shall have provided by the deposit with the Trustee of cash or securities or otherwise for the payment of, all sums of money due or to become due pursuant to the provisions of such Indenture.

Defaults: Any of the following events shall be "events of default" under each Indenture:

(1) default in the due and punctual payment of interest on any Bond issued pursuant to such Indenture;

(2) default in the due and punctual payment of the principal of, or premium, if any, on any Bond issued pursuant to such Indenture, whether at the stated maturity thereof, or upon proceedings for redemption thereof, or upon maturity thereof by declaration;

(3) default in the performance or observance of any other of the covenants, agreements or conditions on the part of the County in such Indenture or in the Bonds issued pursuant to such Indenture and failure to remedy such default after notice thereof pursuant to such Indenture;

(4) the occurrence of an "event of default" under the Lease relating to such Indenture (see the caption "The Leases—Defaults" above); or

(5) the occurrence of an "event of default" under the Primary Lease relating to such Indenture (see the caption "The Primary Leases—Default" above).

The occurrence of an event of default under one Indenture does not in itself constitute an event of default under the other Indenture.

Remedies: Upon the occurrence of any event of default, the Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding under such Indenture shall, declare the principal amount of and interest accrued on all such outstanding Bonds immediately due and payable. However, default in the performance of the agreements set forth in (3) above shall not constitute an event of default until notice of such default shall be given by the Trustee or by the holders of not less than 25% in aggregate principal amount of all Bonds outstanding under such Indenture to the County and the Company, and the County and the Company shall have had 30 days after receipt of such notice to correct said default and shall have not corrected said default within such 30 days, provided that if the default be such that it cannot be corrected within such 30 days, it shall not constitute an event of default if corrective action is instituted by the County or the Company within such 30 days and diligently pursued until the default is corrected.

Upon the occurrence of an event of default, the County, upon demand of the Trustee, shall forthwith surrender the possession of such Project and the Trustee may:

(1) take possession of such Project and operate and manage the same;

(2) sell or lease the County's interest in such Project or any part thereof; or

(3) pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding under such Indenture.

Supplemental Indentures: Under the provisions of either Indenture the Trustee may enter i supplemental indentures without the approval of the holders of the Bonds issued pursuant to s Indenture for any one of the following purposes:

(1) to cure any ambiguity or formal defect or omission in such Indenture;

(2) to grant to the Trustee for the benefit of the holders of such Bonds any additional rights; a

(3) to subject to such Indenture additional revenues, properties or collateral.

Exclusive of supplemental indentures for the purposes set forth in the previous paragraph, the cons of the holders of not less than two-thirds in aggregate principal amount of the Bonds then outstand under such Indenture is required to approve any supplemental indenture, except no supplemer indenture shall permit:

(1) an extension of the maturity of the principal of, or the interest on, any Bond issued pursu to such Indenture;

(2) a reduction in the principal amount of or redemption premium, rate of interest or sink fund redemption requirements on any such Bond;

(3) a privilege or priority of any Bond or Bonds issued pursuant to such Indenture over any otl such Bond or Bonds; or

(4) a reduction in the aggregate principal amount of the Bonds issued pursuant to such Indentı required for consent to such supplemental indentures.

THE GUARANTY

The Company will execute and deliver to the Trustee the Guaranty by which it will unconditiona guarantee to the Trustee for the benefit of the holders of the Pollution Control Bonds and the Industr Revenue Bonds and the interest coupons appertaining thereto (a) the full and prompt payment of t principal of, and premium, if any, on any Pollution Control Revenue Bond and on any Industrial Reven Bond when and as the same shall become due, whether at the stated maturity thereof or by acceleration call for redemption or otherwise, and (b) the full and prompt payment of any interest on any Polluti Control Revenue Bond and on any Industrial Revenue Bond when and as the same shall become due. T Guaranty provides that it will remain in effect until the entire principal of, premium, if any, and interest the Pollution Control Revenue Bonds and the Industrial Revenue Bonds, respectively, shall have be paid or provided for. In the opinion of Chapman and Cutler, as Bond Counsel, and Kutak Rock Coh Campbell Garfinkle & Woodward, as counsel for the Underwriter, based upon such examination a review of such legal authorities as they have deemed necessary, and relying on an opinion of Gene Counsel of the Company with respect to the due power, authorization, execution and delivery of t Guaranty by the Company, a claim against the Company arising under the Guaranty for any amou needed to pay the unpaid principal of and accrued interest on all outstanding Bonds will rank as that of general unsecured creditor and, if timely filed, will be provable as such in any bankruptcy c reorganization proceedings with respect to the Company under the United States Bankruptcy Act.

THE COMPANY

W. R. Grace & Co., a Connecticut corporation incorporated in 1899, is a diversified world-wi company with interests in chemically based products and services and consumer products and servic The Company's business had its origin in Peru in the early 1850's and expanded from trading in manufacturing and agriculture in Latin America, commercial activities and transportation. In recent yea the Company has reduced substantially its Latin American interests, eliminated its transportation interes and concentrated its efforts in the chemical industry and in food and consumer products and services in t United States and Europe.

Substantially all foreign activities and some domestic activities are carried on through wholly owne or majority owned subsidiary companies. As used herein, the term "Company" means W. R. Grace & C and the term "Grace" includes W. R. Grace & Co. and/or one or more of its subsidiaries. The princip executive offices of Grace are located at 3 Hanover Square, New York, N. Y. 10004, and its telephbr number is (212) 344-1200 In July 1973 the principal executive offices of Grace are expected to b relocated to 1114 Avenue of the Americas, New York, N. Y. 10036; (212) 764-5555.

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CAPITALIZATION

The following table sets forth the capitalization of the Company and its consolidated subsidiaries as of March 31, 1973 and the pro forma capitalization reflecting the financing described in this Official Statement. This table should be read in conjunction with the separate financial statements and notes thereto included elsewhere herein.

	Actual	Pro Forma
	(In thousands)	
Short Term Loans Payable (A):		
Loans Payable in U. S. Dollars Under Lines of Credit	$ 3,895	$ — *
Other Loans Payable in U. S. Dollars	17,002	14,947*
Loans Payable in Foreign Currencies	70,447	70,447
Total Short Term Loans Payable	91,344	85,394
Long Term Debt (B):		
Promissory Notes of the Company	196,658	196,658
Revolving Term Loan (C)	100,000	100,000
Sundry Debt of the Company	18,584	24,534*
4¼% Convertible Subordinate Debentures Due March 1, 1990	61,681	61,681
6½% Convertible Subordinate Debentures Due November 15, 1996	100,000	100,000
Debt of W. R. Grace Overseas Development Corporation	30,128	30,128
Debt of Other Subsidiaries	67,004	67,004
Total Long Term Debt	574,055	580,005
Total Debt	$665,399	$665,399
Equity of Minority Stockholders in Consolidated Subsidiaries	$ 25,697	$ 25,697
Stockholders' Equity:		
Capital Stock:		
Preferred Stocks:		
6% Cumulative ($100 par value, 40,000 shares authorized and 26,326 shares outstanding)	$ 2,633	$ 2,633
8% Cumulative Class A ($100 par value, 50,000 shares authorized and 37,391 shares outstanding)	3,739	3,739
8% Noncumulative Class B ($100 par value, 40,000 shares authorized and 34,578 shares outstanding)	3,458	3,458
W. R. Grace Overseas Development Corporation—Preferred (137,100 shares authorized and outstanding) (D)	1,502	1,502
Class C (without par value, 5,000,000 shares authorized)	—	—
Common Stock ($1 par value, 50,000,000 shares authorized and 27,864,589 shares outstanding) (E)	27,865	27,865
Paid in Capital	211,717	211,717
Retained Earnings (F)	478,029	478,029
Total Stockholders' Equity	$728,943	$728,943

* Upon issuance of the Bonds, "Sundry Debt of the Company" will be increased accordingly with the proceeds used to retire short term loans payable in U. S. dollars.

(A) Short term loans made in the United States and payable by the Company bear interest at the prime rate, and those payable in foreign currencies bear interest at the best rate available in the various foreign countries where loans are made. As of December 31, 1972, the average rate of interest on all short term loans (U.S. and foreign) was 7.2%. As of March 31, 1973, the Company and one subsidiary had confirmed lines of unsecured credit with 25 banking institutions aggregating $100,000,000 and loans of $3,895,000 were outstanding thereunder.

(B) The amounts outstanding include approximately $28,000,000 principal amount due within one year.

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(C) In December 1972, the Company entered into an eight year term loan agreement under w may borrow on a revolving basis up to $100,000,000 until December 1975. These borrowings bear at the prime rate for the first three years, after which the interest rate is increased to a maximum over the prime rate. Outstanding borrowings at December 1975 are repayable in five equal installments in the years 1976 through 1980.

(D) As partial consideration for a prior year acquisition of a European food products compa Company's wholly owned subsidiary company, W. R. Grace Overseas Development Corpo delivered shares of its preferred stock (convertible into approximately 500,000 shares of the Com common stock) having a liquidation value of $13,500,000. The dividend rate is 7% on the liqu value. A final delivery of preferred stock having a liquidation value of 51,570,000 Swiss francs is made in January 1974.

(E) On March 31, 1973, the Company had authorized but unissued shares of its common reserved for issuance as follows: 906,000 shares for issuance as stock bonuses or upon exercise of options granted or to be granted, 3,376,000 shares for conversion of the 6½% convertible subor debentures, 1,016,000 shares for conversion of the 4¼% convertible subordinate debentures, 29,000 s for conversion of a convertible subordinate note, 247,000 shares for conversion of the 5% debenture subsidiary convertible into common stock of the Company and 3,350,000 shares for payment as pro for in various acquisition agreements. For further information with respect to obligations to issue com stock, see Notes 7 and 8 of Notes to Financial Statements.

(F) See Note 9 of Notes to Financial Statements.

See Notes 10 and 11 of Notes to Financial Statements for information with respect to r obligations.

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CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

The following Consolidated Statement of Income and Retained Earnings of the Company and its subsidiary companies for the five years ended December 31, 1972, has been examined by Price Waterhouse & Co., independent accountants, whose report thereon (which is subject to the effect, if any, of the settlement of the matter described in Note 2(b) of the Notes to Financial Statements) appears elsewhere herein. This statement should be read in conjunction with the financial statements and notes thereto included elsewhere herein. (See Note (b) below for reconciliation with net income previously reported and the effect of poolings of interests transactions, the prior period adjustment for U. S. Federal income taxes and changes in accounting principles.)

	Years Ended December 31,				
	1968	1969	1970	1971	1972
	(amounts expressed in thousands except for amounts per share)				
Sales and operating revenues(b)	$2,067,677	$2,100,820	$2,014,774	$2,048,873	$2,315,144
Dividends and interest	11,576	14,161	12,895	13,382	12,401
Net gain on retirement of debt and disposition of properties and investments	7,546	3,509	4,720	2,501	2,311
Equity in earnings of less than majority owned companies(c)—Note 2	3,963	4,131	3,195	3,595	4,420
	2,090,762	2,122,621	2,035,584	2,068,351	2,334,276
Cost of goods sold and operating expenses—Notes 1 and 3	1,457,815	1,509,197	1,432,303	1,463,535	1,639,564
Selling, general and administrative expenses	372,190	392,810	390,293	396,290	463,709
Depreciation and depletion—Notes 1 and 4	70,927	66,882	58,620	57,715	60,900
Research and development expenses—Note 1	20,362	20,511	20,772	20,517	21,559
Interest expense	43,701	47,071	42,779	38,323	38,620
Income applicable to minority stockholders	9,076	5,692	3,837	2,352	2,653
	1,974,071	2,042,163	1,948,604	1,978,732	2,227,005
	116,691	80,458	86,980	89,619	107,271
U.S. and foreign income taxes—Notes 1 and 5:					
Current:					
U.S. Federal—(a)	19,223	12,646	10,482	6,969	12,144
Foreign and U.S. state	26,248	23,243	23,020	31,998	34,120
Deferred	1,692	(460)	2,021	3,113	628
	47,163	35,429	35,523	42,080	46,892
Income before extraordinary items	69,528	45,029	51,457	47,539	60,379
Extraordinary items(d)	(25,980)	13,996	(19,339)	(6,195)	3,092
Net income(a)(b)(c)	43,548	59,025	32,118	41,344	63,471
Retained earnings at beginning of year(b)	407,868	421,072	447,646	443,298	448,358
	451,416	480,097	479,764	484,642	511,829
Dividends paid:					
Cash:					
Preferred stocks	897	854	848	837	773
Common stock	26,965	29,948	32,214	34,949	38,295
Pooled companies—prior to combination with the Company (1970 includes $2,797,000 in kind)	2,482	1,649	3,404	498	—
Retained earnings at end of year—Note 9	$ 421,072	$ 447,646	$ 443,298	$ 448,358	$ 472,761
Earnings per common and common equivalent share(a)(e):					
Income before extraordinary items	$2.59	$1.63	$1.88	$1.75	$2.15
Extraordinary items	(1.00)	.54	(.74)	(.23)	.11
Net income	$1.59	$2.17	$1.14	$1.52	$2.26
Earnings per common share assuming full dilution(a)(f):					
Income before extraordinary items	$2.45	$1.60	$1.82	$1.70	$1.97
Extraordinary items	(.90)	.48	(.65)	(.21)	.10
Net income	$1.55	$2.08	$1.17	$1.49	$2.07
Cash dividends(g)	$1.45	$1.50	$1.50	$1.50	$1.50

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Notes to Consolidated Statement of Income and Retained Earnings

(The numerical note references refer to Notes to Financial Statements appearing elsewhere herein)

(a) Prior Period Adjustment for U. S. Federal Income Taxes

In April 1972, the Company and the Internal Revenue Service agreed to certain adjustments to the Company's U. S. Federal income tax returns for the years 1965 to 1967 as described in Note 5 of Notes to Financial Statements. As a result of this agreement, the Company has recorded additional income taxes (including interest expense, net of tax) of $12,000,000 on a retroactive basis for the years 1965 to 1971 inclusive. Accordingly, retained earnings at January 1, 1968 have been decreased retroactively by $5,200,000 from the amount previously reported. Earnings and per share amounts for the years 1968 to 1971 have been restated from amounts previously reported to give effect to the remaining $6,800,000 additional income taxes in the periods in which they arose as follows:

	(Decrease)/Increase			
	Years Ended December 31,			
	1968	1969	1970	1971
	(amounts expressed in thousands of dollars except for amounts per share)			
Income before extraordinary items	$ (842)	$ (25)	$(2,700)	$(1,915)
Extraordinary items	(1,358)	(1,675)	1,700	15
Net income	$(2,200)	$(1,700)	$(1,000)	$(1,900)
Earnings per common and common equivalent share:				
Income before extraordinary items	$ (.03)	$ —	$ (.10)	$ (.07)
Extraordinary items	(.06)	(.06)	.06	—
Net income	$ (.09)	$ (.06)	$ (.04)	$ (.07)
Earnings per common share assuming full dilution:				
Income before extraordinary items	$ (.03)	$ —	$ (.09)	$ (.06)
Extraordinary items	(.05)	(.06)	.06	—
Net income	$ (.08)	$ (.06)	$ (.03)	$ (.06)

(b) Adjustments to Initially Reported Financial Statements

In the above statement, the results of operations of the pooled businesses for the year of combination and the immediately preceding year are stated on a calendar year basis. With respect to the prior years, the results of operations for the fiscal years of the pooled businesses have been combined with the calendar year results of the Company. The overlap between years is insignificant.

For comparative purposes, in preparing the above statement, initially reported sales and operating revenues, retained earnings at the beginning of 1968 and net income have been restated as indicated below and certain amounts have been reclassified (000 omitted).

	Sales and Operating Revenues			
	1968	1969	1970	1971
As initially reported to Stockholders	$1,738,364	$1,791,698	$1,917,559	$2,048,873
Applicable to businesses combined in poolings of interests transactions reported for the first time to Stockholders in:				
1969	53,780	—	—	—
1970	202,357	222,648	—	—
1971	49,290	61,197	67,641	—
Reclassifications	23,886	25,277	29,574	—
As restated	$2,067,677	$2,100,820	$2,014,774	$2,048,873

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	Retained Earnings Beginning of 1968	Net Income			
		1968	1969	1970	1971
As initially reported to Stockholders	$366,764	$33,140	$51,031	$30,243	$43,317
Applicable to businesses combined in poolings of interests transactions reported for the first time to Stockholders in:					
1969	12,067	2,812	—	—	—
1970	23,113	8,058	6,140	—	—
1971	4,443	1,661	2,809	2,734	—
Adjustment for the effect of the change to the equity method of accounting (see Note (c) below)	9,433	40	1,107	191	—
Adjustment for U. S. Federal income taxes (see Note (a) above)	(5,200)	(2,200)	(1,700)	(1,000)	(1,900)
Adjustment for change in accounting principle for income taxes (see Note (c) below)	(2,752)	37	(362)	(50)	(73)
As restated	$407,868	$43,548	$59,025	$32,118	$41,344

(c) CHANGES IN ACCOUNTING PRINCIPLES

In 1972, the Company adopted the policy of providing tax effects based upon its share of earnings (assuming a full payout of such earnings) in certain less than majority owned companies in accordance with Accounting Principles Board Opinion #24, "Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method." Previously, taxes were provided only when dividends were received from these companies. As a result, the Company has recorded additional deferred income taxes of $3,200,000 on a retroactive basis. Accordingly, the retained earnings at the beginning of 1968 have been decreased retroactively by $2,752,000 from the amount previously reported and net income has been increased (decreased) as follows: 1968—$37,000; 1969—($362,000); 1970—($50,000); 1971—($73,000); 1972—$11,000.

In 1971, the basis of accounting for certain investments in less than majority owned companies was changed from the cost method to the equity method, in accordance with Accounting Principles Board Opinion #18, "The Equity Method of Accounting for Investments in Common Stock." Accordingly, the Company now includes in net income its equity in the earnings or losses of these less than majority owned companies. Previously, only dividends received from these companies were included in earnings. As a result, retained earnings at the beginning of 1968 have been increased retroactively by $9,433,000 and net income has been increased as follows: 1968—$40,000; 1969—$1,107,000; 1970—$191,000; 1971—$101,000.

The dividends received from these companies are as follows: 1968—$3,886,000; 1969—$3,386,000; 1970—$3,054,000; 1971—$3,567,000; 1972—$4,443,000.

During 1971, the Company adopted the policy of deferring unrealized foreign currency translation adjustments arising from the translation of indebtedness incurred specifically to finance additions to properties and equipment. Had this change not occurred, net income in 1971 would have been $1,240,000 lower ($.05 per share).

(d) EXTRAORDINARY ITEMS

The extraordinary items consist of:

(1) in 1968 the following:

(a) Provision for loss of $32,000,000 on sale of Grace Line Inc.

(b) Net loss of $1,417,000 resulting from (i) net gain of $176,000, inclusive of U. S. income tax recoveries of $247,000, on sale of 51% interest in Koninklijke Fabrieken C. J. Van Houten & Zoon N.V., and 68% interest in Industrias Coia S.A. and (ii) U. S. income taxes incurred of $1,593,000, net of related foreign tax credits, applicable to an intercompany transaction, a condition precedent to the sale of Van Houten.

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(c) Gain of $6,819,000, net of related U. S. income taxes of $3,769,000, on the sale of cert assets of the Dawbarn Division.

(d) Investment tax and other credits of $618,000 related to the inclusion of the abo transactions as extraordinary items.

(2) In 1969 the following:

(a) Gain of $53,724,000, net of related U. S. income taxes of $27,116,000, on the sale of th Company's 53% interest in Miller Brewing Company.

(b) Gain of $2,980,000, net of related U. S. income taxes of $495,000, on the sale of th Company's investment in Nuclear Fuel Services, Inc.

(c) Gain of $3,515,000, net of related U. S. and foreign income taxes of $1,408,000, on the sal of certain Dawbarn Division properties.

(d) Net loss of $19,595,000, inclusive of net related U. S. and foreign income taxes o $1,407,000, on the sale, divestment and expropriation of certain Latin American and other businesses

* (e) Provision for loss of $17,000,000, inclusive of net related U. S. income taxes of $4,000,000 upon divestment of certain significant Latin American businesses.

** (f) Provision for loss of $10,000,000, net of related U. S. income tax recoveries of $4,000,000 upon abandonment of certain chemical facilities.

(g) Investment tax and other credits of $372,000 related to the inclusion of the above transactions as extraordinary items.

*The results of operations of these businesses continue to be included in the Consolidated Statement of Income and Retained Earnings until the date of divestment. During 1970, 1971 and 1972, the divestment of a substantial portion of these businesses was completed (including the sale of certain chemical businesses to Hooker Chemical Corporation) resulting in a net loss of $11,100,000 in 1970, $2,200,000 in 1971 and $2,500,000 in 1972, which was charged to "Reserve for Loss on Divestments and Abandonments." Efforts are continuing to dispose of certain remaining Latin American operations.

**Substantially all the abandonments for which the loss was provided have been completed by December 31, 1972. The $8,300,000 net loss on these abandonments has been charged to "Reserve for Loss on Divestments and Abandonments."

(3) In 1970 the following:

(a) Net loss of $7,817,000, net of related U. S. income tax recoveries of $2,098,000, on sales or abandonments of certain seed and fertilizer operations.

(b) Provision for loss of $2,910,000, net of related U. S. and foreign income tax recoveries of $1,920,000, upon abandonment of NTA manufacturing facilities.

(c) Provision for loss of $2,119,000, net of related U. S. income tax recoveries of $3,144,000, upon sale of the remaining interest in a foreign chocolate producer.

(d) Net losses or provisions for losses of $2,872,000, net of related U. S. and foreign income tax recoveries of $2,372,000, upon sales and abandonments of the Company's investments in consulting, service and other operations.

(e) Losses of $3,736,000, net of related U. S. income tax recoveries of $876,000, related to the 1969 expropriation of Peruvian sugar properties and divestment of certain other investments in Peru (Note 2).

(f) Intraperiod tax effect of extraordinary items and other tax credits of $115,000.

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(4) In 1971 the following:

(a) Net losses or provisions for losses of $3,186,000, net of related U. S. and foreign income tax recoveries of $3,888,000, on sales or abandonments of certain seed, fertilizer and chemical operations.

(b) Provision for loss of $1,295,000, net of related U. S. income tax recoveries of $1,052,000, upon sale or abandonment of certain frozen food operations.

(c) Net losses or provisions for losses of $1,226,000, net of related U. S. and foreign income tax recoveries of $869,000, upon divestment of certain Latin American and other properties.

(d) Intraperiod tax effect of extraordinary items and other tax adjustments of $488,000.

(5) In 1972 the following:

(a) Gain of $8,418,000, net of related U. S. income taxes of $3,690,000, on the sale of 500,000 shares of Chemed Corporation capital stock.

(b) Loss of $7,379,000, net of related U. S. income tax recoveries of $3,162,000, on the sale of the Company's investment in Marine Midland Banks, Inc.

(c) Net loss of $3,417,000, net of related U. S. and foreign income tax recoveries of $3,123,000, upon sales and abandonments of certain operations and investments.

(d) Intraperiod tax effect of extraordinary items and other tax credits of $5,470,000 principally attributable to the realization of foreign tax credits carried forward.

(e) Earnings Per Common and Common Equivalent Share

Earnings per common and common equivalent share are computed on the basis of the weighted average number of shares of common stock outstanding during the respective years after giving retroactive effect to shares issued and expected to be issued for business combinations and assuming stock options outstanding were exercised at the beginning of the year (with applicable proceeds used to purchase treasury stock) and after deducting dividends paid on preferred stocks. The average number of shares of common stock used to compute earnings per common and common equivalent share were as follows:

	Total	Common Equivalent Shares (included in total)
1968	25,836,000	31,000
1969	26,142,000	245,000
1970	26,267,000	337,000
1971	26,702,000	685,000
1972	27,748,000	572,000

Earnings used in the computation of earnings per common and common equivalent share were as follows (000 omitted):

	1968	1969	1970	1971	1972
Income before extraordinary items	$69,528	$45,029	$51,457	$47,539	$60,379
Dividends paid on preferred stocks	(897)	(854)	(848)	(837)	(773)
Interest, net of tax, covering deferred delivery of shares of common stock related to the combining of two businesses accounted for on the pooling of interests method	(1,656)	(1,509)	(1,319)	139	42
Earnings used in per share computation of income before extraordinary items	66,975	42,666	49,290	46,841	59,648
Extraordinary items	(25,980)	13,996	(19,339)	(6,195)	3,092
Earnings used in per share computation of net income	$40,995	$56,662	$29,951	$40,646	$62,740

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(f) Earnings Per Common Share Assuming Full Dilution

Earnings per common share assuming full dilution are computed based on the following assumpt (1) the various convertible debt obligations were converted at the beginning of the year or from the of issue (with applicable reduction in interest expense, net of tax), (2) contingent shares were issu connection with acquired businesses and (3) stock options outstanding were exercised at the beginni the year (with applicable proceeds used to purchase treasury stock). The average number of shar common stock used to compute earnings per common share assuming full dilution were as follows:

	1968	1969	1970	1971	197
Average number of shares of common stock used to compute earnings per common and common equivalent share	25,836,000	26,142,000	26,267,000	26,702,000	27,748
Conversion of convertible debt obligations	1,544,000	1,435,000	1,332,000	1,629,000	4,668
Issuance of shares of common stock related to the combining of businesses accounted for on the pooling of interests method	1,408,000	1,408,000	2,008,000	1,515,000	1,058
Exercise of stock options	72,000	11,000	20,000	18,000	12
	28,860,000	28,996,000	29,627,000	29,864,000	33,486

Earnings used in the computation of earnings per common share assuming full dilution wer follows (000 omitted):

	1968	1969	1970	1971	197
Income before extraordinary items	$69,528	$45,029	$51,457	$47,539	$60,3
Dividends paid on preferred stocks	(897)	(854)	(848)	(837)	(7
Interest, net of tax, on convertible debt obligations	2,056	1,913	1,915	2,136	5,1
Interest, net of tax, covering deferred delivery of shares of common stock related to the combining of two businesses accounted for on the pooling of interests method	—	147	337	1,984	1,2
Additional required earnings for a combined business accounted for on the pooling of interests method	—	—	975	—	—
Earnings used in per share computation of income before extraordinary items	70,687	46,235	53,836	50,822	66,0
Extraordinary items	(25,980)	13,996	(19,339)	(6,195)	3,0
Earnings used in per share computation of net income	$44,707	$60,231	$34,497	$44,627	$69,1

(g) Cash Dividends

Represents the rate paid by the Company only.

Income before extraordinary items for 1969 was adversely affected by (a) a continuation of lo prices for fertilizer materials caused by the additional production capacity created in the industry in 1 (b) a deterioration of Peruvian earnings caused by unsettled economic conditions in that country, a se drought which substantially reduced the results of the sugar operations (the results of which were incl in the Consolidated Statement of Income and Retained Earnings for only the first six months of 1969– Note 2(b) of Notes to Financial Statements) and unusual start-up costs and higher operating costs o paper operations, and (c) lower Grace Line Inc. income.

In 1970, income before extraordinary items was higher than that in 1969 principally because of increased earnings of Agricultural Products and Services resulting from cost-cutting programs and a sl improvement in fertilizer prices, and (b) improved earnings of the Natural Resources Investm resulting from increased domestic sales and the elimination of Latin American operations primaril Brazil, Colombia and Central America whose patterns of fluctuating earnings had adversely affe results of prior years. These and other 1970 increases were partially offset by a decrease in earning Fashion Products resulting from confusion as to styles in women's fashion which adversely affected re of the apparel business

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Income before extraordinary items was lower in 1971 than in 1970 because of (a) a decline in the earnings of the Natural Resources Investments due to increased Libyan taxes and unfavorable political and ecomomic developments in Libya and Bolivia and (b) a decline in the earnings of the Fashion Products brought on by a number of factors including East and West Coast longshoremen's strikes, the temporary import duty surcharges and exchange uncertainties which affected imports, provisions for cost adjustments and continued confusion as to styles.

The following indicates the unaudited consolidated sales and operating revenues and consolidated net income of the Company and its subsidiary companies and the consolidated net income per share of common stock for the three month periods ended March 31, 1972 and March 31, 1973. The Company believes that all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results of such periods, have been made. (See Note (a) below.)

	Three Months Ended March 31, (unaudited)	
	1972	1973
Sales and operating revenues	$525,994,000	$611,780,000
Income before extraordinary item	$ 9,052,000	$ 10,956,000
Extraordinary item (b)	—	3,139,000
Net income	$ 9,052,000	$ 14,095,000
Per share of common stock (c):		
Earnings per common and common equivalent share:		
Income before extraordinary item	$.31	$.38
Extraordinary item	—	.11
Net income	$.31	$.49
Earnings per common share assuming full dilution:		
Income before extraordinary item	$.31	$.36
Extraordinary item	—	.10
Net income	$.31	$.46

(a) All amounts have been restated for pooling of interests and change in accounting principle.

(b) Gain on sale of consumer products operations, net of related U. S. Federal income taxes of $2,365,000.

(c) Earnings per common and common equivalent share are computed on the basis of the weighted average number of shares of common stock outstanding during the respecuve periods after giving retroactive effect to shares issued and expected to be issued for business combinations and assuming stock options outstanding were exercised at the beginning of the period (with applicable proceeds used to purchase treasury stock) and after deducting dividends paid on preferred stocks. The average number of shares of common stock used to compute earnings per common and common equivalent share were 28,277,000 in 1972 and 28,077,000 in 1973.

Earnings per common share assuming full diluuon are computed based on the following assumptions: (1) the various convertible debt obligations were converted at the beginning of the period (with applicable reducuon in interest expense, net of tax), (2) contingent shares were issued in connecuon with acquired businesses and (3) stock options outstanding were exercised at the beginning of the period (with applicable proceeds used to purchase treasury stock). The average number of shares of common stock used to compute earnings per common share assuming full diluuon were 34,144,000 in 1972 and 33,929,000 in 1973.

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BUSINESS

Lines of Business

Grace's business is divided into a number of different lines of business, which are described l

Consolidated Sales and Operating Revenues(1)

The following table gives Grace's consolidated sales and operating revenues for each line of b for the five years ended December 31, 1972.

	1968	1969	1970	1971	1972	1968	1969	1970	19
	(in millions of dollars)								
Chemically Based Products & Services									
Industrial & Specialty Chemicals & Processes	$ 371	$ 423	$ 459	$ 496	$ 563	18%	20%	23%	2
Agricultural Products & Services	288	280	272	266	283	14	13	13	1
Converted Plastics & Packaging Products	158	181	195	212	242	7	9	10	1
Medical Products & Services	13	17	20	22	28	1	1	1	
Total—Chemical	830	901	946	996	1,116	40	43	47	4
Consumer Products & Services									
Grocery Products	370	404	445	457	518	18	19	22	2
Restaurant & Food Services	33	38	50	80	117	2	2	2	
Fashion Products	114	139	153	173	183	5	7	8	
Leisure Products & Services	77	94	108	129	173	4	5	5	
Education & Other Services	71	75	97	112	138	3	3	5	
Total—Consumer	665	750	853	951	1,129	32	36	42	4
Total—Chemical and Consumer	1,495	1,651	1,799	1,947	2,245	72	79	89	9
Natural Resources Investments	63	75	82	68	66	3	3	4	
Total—Continuing Operations	1,558	1,726	1,881	2,015	2,311	75	82	93	9
Discontinued Operations	510	375	134	34	4	25	18	7	
Grand Total	$2,068	$2,101	$2,015	$2,049	$2,315	100%	100%	100%	10
Foreign (non-U.S. and Canada) Operations Included Above	$ 682	$ 734	$ 714	$ 675	$ 762	33%	35%	35%	33

(1) The data in this table has been restated for poolings of interests transactions.

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ribed below.

ıe of business

1971	1972
24%	24%
13	12
11	11
1	1
49	48
22	22
4	5
9	8
6	8
5	6
46	49
95	97
3	3
98	100
2	—
100%	100%
33%	33%

Consolidated Income from Operations (1)

The following table gives the consolidated income from operations of Grace for each line of business, computed on an after tax basis before extraordinary items and allocation of general corporate overhead and general corporate interest (as these expenses are attributable to all lines of business and cannot reasonably be allocated to specific lines), for the five years ended December 31, 1972. For this table, taxes are computed substantially on a separate return basis for each subsidiary and each division of Grace. In the case of each U.S. subsidiary and division, benefits for all generated investment tax credits and operating losses, if any, are recognized currently.

	1968	1969	1970	1971	1972	1968	1969	1970	1971	1972
	(in millions of dollars)									
Chemically Based Products & Services										
Industrial & Specialty Chemicals & Processes	$22.8	$22.8	$25.4	$27.6	$36.0	27%	37%	37%	40%	42%
Agricultural Products & Services	8.1	(.2)	6.9	7.6	13.6	10	—	10	11	16
Converted Plastics & Packaging Products	8.1	8.8	6.6	6.3	10.1	10	15	9	9	12
Medical Products & Services	1.0	1.2	1.4	1.6	1.9	1	2	2	2	2
Total—Chemical	40.0	32.6	40.3	43.1	61.6	48	54	58	62	72
Consumer Products & Services										
Grocery Products	7.2	6.0	6.9	7.9	6.2	8	10	10	12	7
Restaurant & Food Services	.8	1.0	1.3	2.2	2.9	1	2	2	3	3
Fashion Products	7.4	7.8	5.3	2.8	1.6	9	12	8	4	2
Leisure Products & Services	3.1	4.3	4.1	5.0	6.3	4	7	6	7	8
Education & Other Services	3.0	1.8	3.2	4.0	5.7	3	3	4	6	7
Total—Consumer	21.5	20.9	20.8	21.9	22.7	25	34	30	32	27
Total—Chemical and Consumer	61.5	53.5	61.1	65.0	84.3	73	88	88	94	99
Natural Resources Investments	7.4	8.1	8.9	2.4	.9	9	13	13	4	1
Total—Continuing Operations	68.9	61.6	70.0	67.4	85.2	82	101	101	98	100
Discontinued Operations	15.2	(.7)	(.4)	1.4	(.3)	18	(1)	(1)	2	—
Grand Total	$84.1	$60.9	$69.6	$68.8	$84.9	100%	100%	100%	100%	100%
Foreign (non-U.S. and Canada) Operations Included Above	$30.9	$24.1	$26.4	$24.6	$26.2	37%	40%	38%	36%	31%

(1) The data in this table has been restated for poolings of interests transactions and changes in accounting principles.

Chemically Based Products and Services

Grace's chemical manufacturing and marketing operations are divided into four lines of business: industrial and specialty chemicals and processes, agricultural products and services, converted plastics and packaging products, and medical products and services.

Industrial and Specialty Chemicals and Processes

Grace manufactures and markets to industrial customers a broad line of chemically based specialty products and the equipment to use them.

Principal products and services manufactured and sold in the United States and, in many cases, Canada include the following:

Cracking catalysts, which are used in the operation of fluid catalytic cracking plants for the production of refined petroleum products, and other industrial catalysts; silica gel and other dehydrating agents; fine-sized silica used in finishes.

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Polymer fiber materials such as tape bases and other specialty papers and battery separator in industrial and automotive storage batteries; plastic battery separators; organic chemicals so use in rubber compounds, adhesives, paper and paint.

Construction, insulation and building maintenance products including expanded verm products, concrete admixtures, cement manufacturing chemicals, highway construction produc building specialties.

Sealing compounds for cementing and sealing metal cans and drums and sealing bottle cap related application equipment.

A process known as *Letterflex* for making plastic printing plates using photo sensitive pol and blankets for textile and offset printing.

Amino acid chelating agents, sarcosine surfactants and other specialty chemicals, used ir and detergent manufacturing, textile processing, water treatment and other industrial applicau

Plasticizers, and oxo-alcohols used in their production, which are chemical additives u impart flexibility and temperature resistance to plastics; synthetic lubricants for jet engines, pol resins and reinforced fiberglass for the marine, automotive and construction industries.

Specialized industrial and institutional cleaning compounds, coating compounds and floo products, which are sold to manufacturing plants, food processing plants, the transportation in and hospitals and other institutions; dishwashing detergents, bleaches, stain removers and additives for mechanical and manual dishwashing as well as oven cleaners, tarnish remover other kitchen cleaning products which are sold to institutional customers.

Specialized boiler water and cooling tower water treatments, biocides, coagulant aids, p anti-foams, scale and deposit removers and corrosion inhibitors for maintenance and productio and sewage treatment chemicals for municipal and industrial waste treatment systems; profes engineering services in the water and water treatment fields.

Activities abroad produced 31% of the 1972 sales and operating revenues of this line of busine 25% of its 1972 after tax income from operations. Most of the product line is manufactured and ma in major foreign industrial areas including the United Kingdom, Western Europe, Japan, Austral New Zealand, the Philippines and Latin America. Products include battery separators, sealan adhesives for construction and automotive industries, silica gel and fine-sized silicas, sound dea materials for the automotive industry, various organic chemicals, pharmaceutical intermediates, co compounds and pressure-sensitive tapes, industrial and institutional cleaners and water treatme pollution control chemicals and services.

Agricultural Products and Services

Grace produces and markets fertilizers, pesticides, livestock and poultry feeds and feed supple and programs for the artificial insemination of dairy and beef cattle. In 1972, fertilizers accounted fo of the sales and operating revenues of this line of business. Fertilizer products include anh ammonia, nitrogen solutions, ammonium nitrate, ammonium sulfate, urea, single superphos concentrated phosphates (triple superphosphate, diammonium phosphate and monammonium phate), and phosphoric acid, all of which are sold as direct application fertilizers or are used to p compounded fertilizers in dry and liquid forms.

The annual capacities of Grace's agricultural chemical plants in the United States are approxi 375,000 tons of ammonia, 28,000 tons of ammonium sulfate, 135,000 tons of urea, 1,300,000 tons of fertilizers, 75,000 tons of single superphosphate, 1,000,000 tons of concentrated phosphates, 1,000,0 of sulfuric acid, 325,000 tons of phosphoric acid, 170,000 tons of 100% nitric acid and 350,000 tons o converted nitrogen products (nitrogen solutions, ammonium nitrate and calcium ammonium nitra

A substantial portion of the after tax income from operations of this line of business is attribut foreign operations. Agricultural chemical plants in the Caribbean area have the following capacities: Trinidad—290,000 tons of ammonia, 90,000 tons of ammonium sulfate, 75,000 tons of ur 77,000 tons of sulfuric acid; Netherlands West Indies—115,000 tons of ammonia; Jamaica—70,000 mixed fertilizers; and Puerto Rico—150,000 tons of blended fertilizers. An agricultural chemical p France has the annual capacity of 150,000 metric tons of phosphatic fertilizers. Grace has a 37% int a company which mines phosphate rock in Togo, West Africa.

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Converted Plastics and Packaging Products

Grace provides complete flexible packaging systems under the *Cryovac* name, including shrinkable bags and films, pouches, casings and laminates, and related machinery and services for the packaging of meat, poultry and cheese by supermarkets. Grace also produces packaging systems for consumer merchandise such as toys, records, books, textiles and novelties. These products are manufactured and sold in the United States, Canada, Europe, Latin America and the Pacific area.

Grace also manufactures clear and foamed plastic food trays, foamed plastic egg cartons, plastic bags and hangers, disposable beverage containers and dinnerware and blow-molded carrying cases.

Grace produces vinyl film and sheeting and cast expanded vinyl products for a variety of consumer goods applications in the United States and manufactures a line of vinyl office accessories.

In 1972, 30% of the sales and operating revenues of this line of business and 46% of its after tax income from operations were attributable to foreign operations.

Medical Products and Services

Grace manufactures and sells environmental germicides, germicidal detergents and skin cleansers for use in hospitals, convalescent homes and other health care institutions and disposable medical and dental supplies for hospitals, doctors and dentists.

Grace also operates laboratories which provide medical and diagnostic testing services. Grace furnishes inhalation therapy services and personnel to hospitals and sells inhalation therapy, anesthesia and other specialized medical equipment.

Consumer Products and Services

Grace's consumer products and services are divided into five lines of business: grocery products, restaurant and food services, fashion products, leisure products and services, and education and other services.

Grocery Products

In the United States, Grace processes, packages and distributes various grocery products including pickles, dressings and convenience canned foods, frozen processed seafood and pizza, snack products, and chewing gum, candies and other confectioneries. It also makes chocolate intermediary products for use in the candy, bakery and dairy industries, including chocolate liquor, coatings and drops and cocoa butter and powder.

In Europe, Grace processes and markets cocoa butter and powder, pasta and packaged grocery products, confectioneries and chewing gum, dairy products and ice cream, pickles, condiments and sauces, jams and preserves, soft drinks, edible oils and consumer cleaning compounds. These products are distributed to grocery and other outlets in various European countries. Approximately 59% of the sales and operating revenues of this line of business and 56% of its after tax income from operations were attributable to foreign operations.

Restaurant and Food Services

Grace is engaged in the restaurant and food service business with over 80 restaurants and coffee shops in the United States. It operates expressway restaurants and other restaurants and feeding services in plants, offices and schools in France, Italy, Spain, Belgium, Denmark, Germany and Portugal. Restaurant operations in the United States and Europe are being expanded, and sites have been obtained for 26 additional restaurants in the United States, many of which are under construction.

Fashion Products

In the United States, Grace styles, manufactures and markets women's apparel, leather handbags and footwear and operates a chain of retail shoe stores.

In Europe and Australia, Grace manufactures specialty fabrics for mattress ticking and curtain and upholstery fabrics for the home furnishing trade. These products are also marketed in the United States.

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In 1972, 15% of the sales and operating revenues and 89% of the after tax income from operati this line of business were attributable to foreign operations. This foreign percentage of income operations is disproportionate due to the unsatisfactory results of operations of the footwear business United States in 1972.

Leisure Products and Services

Grace is engaged in the retail sporting goods business with stores in East Coast metropolitan are also has retail toy stores and is engaged in the wholesale distribution of toys and housewares, and op a direct mail order service for food and gift items.

Grace manufactures and sells specialty automotive parts, accessories and fasteners used i performance, customizing and replacement markets, as well as in the original equipment market. I produces specialty wire products and components for the automotive and appliance industries. manufactures and sells travel trailers and motor homes.

Education and Other Services

Grace is engaged in the wholesale distribution of general books, films and records to university, s and public libraries throughout the United States, as well as school supplies.

Grace is also engaged in land development and the leasing and sale of commercial and resid properties, and it acts as a mortgage broker and as an advisor to a real estate investment trust.

Natural Resource Investments

Grace holds three petroleum concessions (aggregating 2,216,000 acres) in Zones I and II in l jointly with subsidiaries of Sinclair International Oil Company and Exxon Corporation. Grace h undivided 24.5% interest in the working interests in these concessions. During 1972, Grace's net Li production was 8,345,000 barrels. Taxes, royalties and surface rents payable to the Libyan Govern currently aggregate approximately $1.96 per barrel. Grace estimates that, as of December 31, 1972, i proved crude oil reserves in the Raguba Field were 95,753,000 barrels of oil.

The Organization of Petroleum Exporting Countries (OPEC), of which Libya is a member, has c for "effective participation" by each member country in the existing petroleum concessions each granted. It has been reported that Libya will demand an immediate 50% interest in the existing L. petroleum concessions.

Grace is also participating with others in oil and gas exploration and producing activities in the R Mountain and Louisiana Gulf Coast areas in the United States and in Alberta, Canada and in explor activities in the Yukon and Northwest Territories and Alberta, Canada, and in off-shore Gabon, Africa. During 1972, Grace's crude oil production from United States operations was approxim 74,990 barrels and net gas production was approximately 263,894,000 cubic feet.

Grace has interests in tin-tungsten mining and tin dredging operations in South America, and co lead, zinc and silver mining in Canada. Grace's share of the production of these operations during amounted to approximately 12,400 tons of copper concentrates, 3,000 tons of tin concentrates, 23,300 of lead-zinc-silver concentrates, 1,600 tons of tin-tungsten concentrates and 150 tons of tun concentrates. It also engages in metal trading activities.

Grace has a 50% interest in a pulp/paper manufacturing company in Columbia which proc writing, fine and specialty papers. A major portion of the pulp used in these manufacturing operati made from bagasse derived from sugar cane. Grace licenses its process for using bagasse in pulp/p manufacturing to other companies.

Discontinued Operations

In recent years, Grace's interests in Latin America have been reduced through various event number of Latin American businesses have been sold, and Grace has deconsolidated its Peru operations in its financial statements. Grace's interests in Peru consist of pulp and paper mills, copp and lead-zinc-silver mining operations, and the production of chemical products, principally caustic chlorine and PVC resins and compounds, and beverage and industrial alcohol.

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The Peruvian Government has assumed control of Grace's sugar lands and mills, and has also passed laws to the effect that foreign ownership of certain industries in Peru may gradually have to be reduced or divested. The Peruvian Government and Grace have agreed in principle for the sale of Grace's Peruvian paper, chemical and alcohol operations to the Government over a ten-year period and the investment of Grace's claim for its sugar operations in a new Peruvian industrial enterprise which would be acquired by the Government after 10 years. The ultimate realizable value of Grace's Peruvian investments is not presently determinable, and such investments are carried at Grace's equity in their book value as of June 30, 1970, less certain related remittances since that date. (See Note 2(b) of Notes to Financial Statements.)

Grace has also sold various businesses, as described under "Acquisitions and Dispositions".

Acquisitions and Dispositions

During the past five years Grace has acquired a number of businesses. Businesses acquired have included John Meyer of Norwich, Inc. and affiliated companies (a manufacturer of women's apparel), Far West Services, Inc. (which operates restaurants in the United States), Golding Bros. Company, Inc. and Bekaert Mattress Ticking N.V. (both manufacturers of specialty fabrics), Parents' Magazine Enterprises, Inc. (consisting of Baker and Taylor and F. A. O. Schwartz, book distributors and toy retailers, respectively), Lawrence Maid Footwear, Inc. and Superior Shoe Company (which produce women's and misses' footwear), Barilla G. e R. F.lli. S.p.A. (a manufacturer of pasta and other grocery products in Italy), Mr. Gasket Co. (a supplier and manufacturer of high performance and specialty automotive parts and accessories), Shasta Industries, Inc. and Shasta Trailers of S.C., Inc. (a travel trailer and motor home manufacturer), and MSP Industries Corporation (a manufacturer of fasteners and wire products for automotive and appliance industries).

Expenditures in connection with acquisitions during the five years ended December 31, 1972 have amounted to approximately $123,000,000 and the issuance of 8,895,155 shares of Common Stock. Other capital expenditures during this five-year period have amounted to approximately $573,000,000.

During the five years ended December 31, 1972 Grace has sold various businesses, and the proceeds in cash and securities for the major dispositions have aggregated approximately $325,000,000. Units sold included Grace's 53% interest in Miller Brewing Company, Grace Line Inc., a synthetic fiber operation, certain agricultural chemical facilities in U. S. and Australia, various Latin American operations, and Grace's 50% interest in Gulf & South American Steamship Co., Inc. In 1972 Grace also sold 277,406 shares of Marine Midland Banks, Inc. $5.50 Convertible Preferred Stock for $19,974,000.

Grace is continuously reviewing proposed acquisitions and divestments with the primary goal of increasing Grace's interests in specialty chemicals and consumer products and services, and it is expected that selective acquisitions and divestments will be consummated in the future.

Competition, Raw Materials and Properties

All of the industries in which Grace operates are competitive. Grace is the sixth largest producer of chemical products in the United States and has a strong competitive position in the high technology specialty chemicals and flexible packaging fields and, through its superior distribution system, in agricultural chemicals. Grace is also a significant factor in various segments of the grocery and food service industry in Europe, in book wholesaling and in the cleaning chemicals, water treatment chemicals and direct mail businesses conducted in the United States. Grace regards its competitive position in its various businesses as satisfactory.

All of the principal raw materials needed for Grace's United States and Canadian chemical operations, with the exception of potash, sulfur, natural rubber and castor oil, are either produced by Grace in the United States or Canada or purchased from domestic sources. Ammonia is supplied to certain United States plants from Grace's Trinidad plant. The major part of Grace's requirements for potash and sulfur is supplied by United States and Canadian producers while the remainder is imported. Most raw ingredients for food products are available locally except that cocoa beans are obtainable only from foreign sources.

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Grace operates chemical, food and other types of plants throughout the world, has office and service facilities in many locations and has mining and petroleum properties in the United States, America, Canada and Libya. Grace's general policy is to own its plant properties and to lease facilities. Grace considers all of its major operating properties to be maintained in good oper condition. (See Note 4 of Notes to Financial Statements for further information concerning proper

Grace has phosphate rock mining properties in Florida which partially supply Grace's raw ma requirements for fertilizer. The properties consist of approximately 83,000 acres of land, 11,000 acr which are in areas which have complete mining facilities. Production is approximately 2,500,000 ton year, and, based on drilling data, Grace estimates that its phosphate rock reserves are sufficient to su production at this rate for at least 50 years.

Grace has a vermiculite mining operation in Montana which partially supplies its requirements fc expanded vermiculite products. Production is approximately 325,000 tons of vermiculite concentrate year, and, based on drilling data, Grace estimates that its vermiculite reserves are sufficient to sus production at this rate for at least 50 years.

Environmental Matters

In constructing and operating its plants and other facilities Grace makes every effort to comply pollution control laws and existing plants are being improved to meet changing standards. While tl have been matters under discussion with governmental authorities from time to time no major difficu have been encountered in effecting compliance. Capital expenditures for the purpose of pollution cor are expected to average approximately $9,000,000 per annum during the five years ending December 1977.

Research Activities

Grace engages in an active research and development program directed toward the developmer new products and processes, the improvement of existing products and processes and the developmer new uses for existing products. Chemical research is handled by divisional laboratories and by Technical Group which has a research laboratory in Clarksville, Maryland. The Group's research effo directed primarily to the support and extension of existing business and includes research on catalysts auto emission control, photosensitive polymers, biochemical products for animal feeds, air and w pollution control and specialty material for construction. Additional chemical and other research facil are located in the United States and Europe. Total research and development expenditures amounte $21,559,000 in 1972 and totalled $102,807,000 for the five years ended December 31, 1972. There approximately 860 professional employees engaged in research and development work. The amour research and development expenditures relating to customer and government-sponsored projects opposed to company-sponsored projects) and the number of such professional employees engaged time in customer and government-sponsored work is not considered material.

Employee Relations

Grace has approximately 72,500 employees, 41,500 of whom are located in the United States Canada. 18,000 of Grace's employees are represented by unions and 9,100 of these are in the Ur States and Canada and are covered by collective bargaining agreements running, in the majority of c for terms of two to three years. Some contracts are currently in negotiation while the others ex periodically throughout the next three years. Labor relations are considered satisfactory, and no ser work disruptions have occurred recently. There were two strikes at chemical facilities in 197 connection with contract renewals, each lasting six weeks. One was in Cedar Rapids, Iowa, and the c in East Rutherford, New Jersey. In each case customers were satisfied from other locations.

Certain Legal Proceedings

An action brought by Mobil Oil Corporation in June 1967 against Grace and one of its customers been tried and is awaiting decision in the United States District Court for Connecticut. The action wa alleged infringement and contributory infringement of three patents which are owned by the pla

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relating to the manufacture and use of certain catalysts in the cracking and conversion of hydrocarbons. The plaintiff requested that Grace and such customer be enjoined from further infringement and contributory infringement of the patents alleged to be infringed and that Grace and such customer account for treble damages sustained because of prior infringements. No specific dollar amount of damages has been demanded. Grace indemnifies its cracking catalyst customers against claims of infringement of the patents of others arising out of the use of Grace's catalysts in the cracking of hydrocarbons. Fish & Neave, 277 Park Avenue, New York, N. Y., counsel for Grace in this litigation, have advised Grace that in their opinion Grace should prevail.

In June 1970 de Rance, Inc. commenced an action against Grace and Mr. J. Peter Grace in the Supreme Court of the State of New York, New York County. De Rance, Inc. seeks to recover an alleged $97 million gain realized by Grace from its sale of its 53% interest in Miller Brewing Company to Philip Morris Incorporated in 1969, plus interest and costs. The basis for this claim is that in 1966 Mr. Grace allegedly violated a fiduciary duty to de Rance, Inc. by acquiring the 53% interest in Miller Brewing Company for Grace. De Rance, Inc. owned the other 47% of the stock of Miller Brewing Company and claims that Mr. Grace's alleged fiduciary duties to it included acquisition of the majority interest for de Rance, Inc. Grace purchased this 53% interest for $37 million in cash and Common Stock and sold the interest for $130 million. Grace and Mr. Grace have denied all of the allegations of wrongdoing in the complaint and have asserted various affirmative defenses. Cahill Gordon & Reindel, 80 Pine Street, New York, N. Y., counsel for Grace and Mr. Grace in this matter, have advised that in their opinion the action is without merit.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of
W. R. GRACE & Co.

We have examined the consolidated financial statements of W. R. Grace & Co. and its s companies as listed in the accompanying index. Our examinations were made in accorda generally accepted auditing standards and accordingly, included such tests of the accounting rec such other auditing procedures as we considered necessary in the circumstances.

As stated in Note 2(b) of the Notes to Financial Statements, the ultimate realizable val Company's investments in and advances to unconsolidated Peruvian subsidiary companies, c $31,074,000 at December 31, 1972, is not presently determinable.

As described in Note (c) to the Consolidated Statement of Income and Retained Earn Company, in 1972, changed its method of accounting for income taxes on earnings fron investments in less than majority owned companies on a retroactive basis, and, in 1971, ch. method of accounting for (1) the carrying value of such investments retroactively, and (2 currency translation adjustments as of January 1, 1971.

In our opinion, subject to the effect, if any, of the settlement of the matter mentioned in the preceding paragraph, the consolidated financial statements mentioned above present fairly the position of W. R. Grace & Co. and its subsidiary companies at December 31, 1972, the results operations for the five years then ended and the changes in financial position for the three ye ended in conformity with generally accepted accounting principles consistently applied, excep changes, with which we concur, described in the immediately preceding paragraph.

PRICE WATERHOUSE & Co.

New York, New York
March 2, 1973

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W. R. GRACE & CO. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

December 31, 1972

(in thousands)

ASSETS

Current Assets:		
Cash, including time deposits of $59,110		$ 94,305
U. S. Government and other marketable securities, at cost (approximate market value)		42,932
Notes and accounts receivable:		
Trade, less allowances of $10,548	$326,140	
Other, less allowances of $1,433	46,191	372,331
Inventories—Notes 1 and 3		400,416
Prepaid expenses		20,676
Total current assets		930,660
Investments:		
Investment in Occidental Petroleum Corporation—Note 2	17,500	
Investments in unconsolidated Peruvian subsidiary companies—Note 2	34,686	
Net advances from unconsolidated Peruvian subsidiary companies	(3,612)	
Investments in less than majority owned companies, at cost adjusted for equity—Notes 1 and 2	29,817	
Advances to less than majority owned companies	745	
Miscellaneous investments, at cost, less allowances of $1,880	11,099	90,235
Deferred Charges		20,643
Miscellaneous Receivables and Other Assets		30,617
Goodwill, less amortization of $9,279—Note 1		66,594
Properties and Equipment, at cost, less accumulated depreciation and depletion of $498,837—Notes 1 and 4		642,306
		$1,781,055

LIABILITIES

Current Liabilities:	
Loans payable in U. S. dollars	$ 42,631
Loans payable in foreign currencies	70,447
Long term debt due within one year	25,724
Accounts and acceptances payable	255,940
U. S. and foreign taxes on income—Note 5	42,695
Other current liabilities	59,430
Total current liabilities	496,867
Deferred Taxes on Income—Note 5	25,249
Foreign Social Law Obligations and Other Noncurrent Liabilities	28,703
Long Term Debt—Note 6	479,071
Reserve for Loss on Divestments and Abandonments—Note 2	2,900
Equity of Minority Stockholders in Consolidated Subsidiaries	25,493
	1,058,283

STOCKHOLDERS' EQUITY

Capital Stock—Notes 7 and 8:		
Preferred stocks outstanding—$100 par	$10,045	
Common stock issued and outstanding—$1 par	27,267	37,312
Paid In Capital, per accompanying statement		212,699
Retained Earnings—Note 9		472,761
		722,772
Commitments and Contingent Liabilities—Note 10		
		$1,781,055

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(1) Statement of Accounting Policies

(a) *Principles of Consolidation:* The consolidated financial statements include the accounts of th Company and all majority owned and controlled domestic and foreign subsidiary companies (except fc Peruvian subsidiary companies). All significant intercompany transactions have been eliminated from th consolidated financial statements. Certain investments in less than majority owned companies are carrie at cost adjusted for subsequent changes in equity since dates of acquisition.

(b) *Translation of Foreign Currencies:* The assets and liabilities of the Company's foreign subsidiarie have been translated into United States dollars at year end rates of exchange, except that properties anc equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition Income and expenses (other than depreciation) have been translated at rates prevailing during the year Unrealized foreign currency translation adjustments are taken into income currently except that those adjustments arising from the translation of indebtedness incurred to finance additions to properties and equipment are amortized over the estimated useful lives of the related assets.

(c) *Inventories:* Inventories are stated at the lower of cost or market. Due to the diversified nature of the Company's operations, several bases of determining costs are used, including first in-first out, average and identified cost. Market for raw and packaging materials is based on replacement cost and for other inventory classifications on net realizable value.

(d) *Properties and Equipment and Related Depreciation:* Depreciation of properties and equipment is generally computed using the straight line method over the estimated useful lives of the assets and depletion of mineral and oil producing properties is provided on the unit of production method. Expenditures for maintenance, repairs, renewals and betterments which do not materially prolong the useful lives of the assets are charged to income as incurred. The cost of property retired or sold, and the related accumulated depreciation, is removed from the accounts, and any gain or loss, after taking into consideration proceeds from sale, is transferred to income.

(e) *Goodwill:* Goodwill, principally arising from acquisitions accounted for as purchase transactions, is amortized using the straight line method over the estimated useful lives, but not in excess of forty years.

(f) *Research and Development:* Research and development costs are charged to income as incurred

(g) *Income Taxes:* Deferred income taxes are provided for the excess of depreciation for tax purposes over depreciation recorded for financial accounting purposes, for the unremitted earnings of less than majority owned companies and for other significant timing differences. The investment tax credit is applied as a reduction of the tax provision in the year the properties and equipment are placed in service

(h) *Pension Plans:* Pension obligations, under various funded and unfunded domestic and foreign (including prevailing social law) plans, are generally provided by current funding and accruals. Prio service costs, as to certain of the plans, are amortized generally over ten to thirty years.

(2) General

(a) Investments in Occidental Petroleum Corporation

The Company's investment in Occidental Petroleum Corporation (175,000 shares of $8.00 Preferrec Stock constituting all of the issued and outstanding shares of this class which is redeemable at par no late than 1981) is carried at the redemption price established when the stock was received as partia consideration for the Company's sale in 1970 of certain Latin American businesses to the Hooker Chemica Corporation, a subsidiary of Occidental (see Note (f) below).

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(b) Investments in Unconsolidated Peruvian Subsidiary Companies

In July 1970, the Peruvian Government issued The General Industry Law which provides, among other things, that foreign ownership of industrial companies in Peru be reduced to a minority position and in certain cases divested, within an agreed period. Accordingly, all of the Peruvian subsidiary companies were deconsolidated at June 30, 1970 and the Company's equity in the book value of the underlying net assets at that date has been included in "Investments in unconsolidated Peruvian subsidiary companies." The carrying value of these investments as well as certain advances have been reduced by certain related remittances.

In November 1971, the Peruvian Government and the Company signed an agreement in principle for the sale of the Company's existing Peruvian paper, chemical and alcohol operations to the Government over a ten year period. This agreement also contemplates the investment of Agrarian Reform bonds, to be issued by the Government as compensation for its assuming control of certain sugar properties which were written off in 1969, in a new Peruvian paper, chemical or other basic industrial enterprise. The Company's resulting equity in such enterprise will be acquired by the Peruvian Government during the last five of fifteen years following the date the investment is made. The price and other specific terms of the sale of the Company's existing paper, chemical and alcohol operations as well as of its future equity derived from the investment of its Agrarian Reform bonds remain to be determined in negotiations currently in progress with the Interministerial Commission appointed by the Peruvian Government.

(c) Chemed Corporation

As of April 30, 1971, the business and assets of the Company's Specialty Products Group were transferred to Chemed Corporation, a 100% owned subsidiary of the Company. In May 1971, Chemed Corporation sold to the public 350,000 shares of its unissued capital stock, reducing the Company's ownership to 96%. The excess of the net proceeds from the offering over the 4% minority interest in Chemed's net worth as of the offering date was credited to paid in capital.

In 1972, the Company sold 500,000 shares of Chemed Corporation capital stock to the public outside the United States. The excess of the net proceeds from the sale over the decrease in the Company's proportionate interest in Chemed's net worth has been shown as an extraordinary item in the Consolidated Statement of Income and Retained Earnings. At December 31, 1972, the Company's ownership was 89%.

(d) *Changes in Accounting Principles*

(i) *Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method*

In 1972, the Company adopted the policy of providing tax effects based upon its share of earnings (assuming a full payout of such earnings) in certain less than majority owned companies in accordance with Accounting Principles Board Opinion #24, "Accounting for Income Taxes—Investments in Common Stock Accounted for by the Equity Method." Previously, taxes were provided only when dividends were received from these companies. As a result, income before extraordinary items in 1972 has been increased by $11,000 (1971— decreased by $73,000 and 1970 decreased by $50,000) and retained earnings at the beginning of 1972 have been decreased retroactively from the amount previously reported by $3,200,000 (1971—$3,127,000 and 1970—$3,077,000) to reflect this change.

(ii) *Accounting for Investments in Less Than Majority Owned Companies*

In 1971, the basis of accounting for certain investments in less than majority owned companies was changed from the cost method to the equity method, in accordance with Accounting Principles Board Opinion #18, "The Equity Method of Accounting for Investments in Common Stock." Accordingly, the Company now includes in net income its equity in the earnings or losses of these less than majority owned companies. Previously, only dividends received from these companies were included in earnings.

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As a result, income before extraordinary items in 1971 was increased by $101,000 (1970—$191,000). Retained earnings at the beginning of 1971 were increased retroactively from the amount previously reported by $10,771,000 (1970—$10,580,000) to reflect this change.

(iii) *Accounting for Unrealized Foreign Currency Translation Adjustments*

During 1971, the Company adopted the policy of deferring unrealized foreign currency translation adjustments arising from the translation of indebtedness incurred specifically to finance additions to properties and equipment. Had this change not occurred, income before extraordinary items in 1971 would have been $1,240,000 lower ($.05 per share).

(e) *Acquisitions*

In January and February 1971, the Company and its wholly owned subsidiary company, W. R. Grace Overseas Development Corporation, acquired capital stock of a food products company based in Europe and two domestic businesses for $10,000,000 in cash, the issuance of shares of the Company's common stock and W. R. Grace Overseas Development Corporation's commitment to deliver shares of a new issue of preferred stock (see Note 10) in the years 1972 through 1974, convertible into shares of common stock of the Company. As of December 31, 1972, approximately 1,800,000 shares of the Company's common stock were issued or are expected to be issued for these businesses. For accounting purposes these transactions have been treated as either poolings of interests or part purchase, part pooling of interests in conformity with generally accepted accounting principles in effect at the time the transactions were initiated. The income related to the purchased portion of one acquisition has been included in "Income applicable to minority stockholders" in the Consolidated Statement of Income and Retained Earnings in 1970. The 1970 sales of the businesses acquired in 1971 and included in the 1970 financial statements were $83,090,000 whereas the net income was $3,477,000. The 1970 table which follows includes these business combinations.

The following is a summary of businesses acquired which for accounting purposes have been treated as poolings of interests transactions in 1970:

	Shares of Common Stock Issued and Issuable	1970 Results of Operations Prior to Combination	
		Sales	Net Income
Leisure Products & Services	561,560	$23,097,000	$1,073,000
Grocery Products	1,496,840	72,230,000	2,609,000
Restaurant & Food Services	499,968	22,922,000	942,000
Education & Other Services	843,842	25,716,000	555,000
Fashion Products	420,000	28,145,000	1,208,000
Industrial & Specialty Chemicals & Processes	186,494	2,661,000	563,000
Medical Products & Services	52,162	525,000	61,000
	4,060,866		

The following is a summary of businesses acquired which for accounting purposes have been treated as poolings of interests transactions in 1971:

	Shares of Common Stock Issued	1971 Results of Operations Prior to Combination	
		Sales	Net Income (Loss)
Leisure Products & Services	1,069,492	$48,913,000	$2,679,000
Converted Plastics & Packaging Products	100,000	1,235,000	152,000
Grocery Products	59,496	3,011,000	(45,000)
	1,228,988		

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The following is a summary of businesses acquired during 1972 which for accounting purposes have been treated as purchase transactions:

	Shares of Common Stock Issued*	Cash Paid	Total Acquisition Cost
Leisure Products & Services	7,760	$17,635,000	$17,817,000
Grocery Products	38,956	3,404,000	4,214,000
Restaurant & Food Services	—	3,628,000	3,628,000
Education & Other Services	94,976	665,000	2,693,000
Fashion Products	—	1,063,000	1,063,000
	141,692	$26,395,000	$29,415,000

* 312,500 additional shares are issuable in accordance with prescribed formulas.

In addition, Chemed Corporation acquired three businesses in 1972 for $780,000 in cash and the issuance of 94,622 shares of its capital stock.

The Consolidated Statement of Income and Retained Earnings includes the results of operations of the above businesses acquired during 1972 from the effective dates of acquisition. The following table summarizes the combined results of operations on a pro forma basis as though these businesses were consolidated with the Company and its subsidiary companies as of January 1, 1971:

	Year Ended December 31,	
	1971	1972
Sales and operating revenues	$2,092,194,000	$2,349,144,000
Income before extraordinary items	$ 49,615,000	$ 61,447,000
Net income	$ 43,420,000	$ 64,539,000
Per common and common equivalent share:		
Income before extraordinary items	$1.82	$2.19
Net income	$1.59	$2.30

Additionally, in 1972, one business was acquired for 80,000 shares of common stock in a pooling of interests transaction. However, the financial statements for prior years have not been restated as the effect on previously reported consolidated earnings is not considered material.

On January 17, 1973, all the outstanding shares of capital stock of two related companies engaged in the development of commercial real estate were acquired through an exchange of 381,000 shares of the Company's common stock. This combination will be accounted for as a pooling of interests transaction in 1973. As the results of operations of these two companies are not considered material in relation to the consolidated earnings of the Company, combined pro forma information is not presented herein.

(f) *Divestments*

In 1970, the Company sold its vinyl film, fabrics and related businesses in Latin America to Hooker Chemical Corporation for $21,000,000. Certain other Latin American businesses were divested, including the Company's sale of its Central American food operations to Riviana Foods, Inc. The loss on these transactions and loss on the abandonment of certain chemical facilities were charged to "Reserve for Loss on Divestments and Abandonments" as they were provided for in 1969 as extraordinary items in the Consolidated Statement of Income and Retained Earnings. Also in 1970 certain seed and Australian fertilizer operations were sold for $22,000,000. The gains or losses on these transactions have been shown as extraordinary items in the Consolidated Statement of Income and Retained Earnings.

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In 1971, the Company sold its remaining Colombian food operations for $3,500,000. The loss on this transaction was charged to "Reserve for Loss on Divestments and Abandonments" as it was provided for as an extraordinary item in the 1969 Consolidated Statement of Income and Retained Earnings. Also in 1971 certain domestic seed and Australian fertilizer operations and the stock of a European based consumer products company were sold for $16,200,000 and $5,300,000 respectively. The gains or losses from these transactions have been shown as extraordinary items in the Consolidated Statement of Income and Retained Earnings.

In 1972, the Company sold certain of its Bolivian businesses for $1,800,000. The loss on this transaction was charged to "Reserve for Loss on Divestments and Abandonments" as it was provided for as an extraordinary item in the 1969 Consolidated Statement of Income and Retained Earnings. Also the Company's investment in Marine Midland Banks, Inc. (277,406 shares of $5.50 Convertible Preferred Stock) was sold to Marine Midland in December 1972. The loss incurred on this sale has been shown as an extraordinary item in the Consolidated Statement of Income and Retained Earnings.

(3) INVENTORIES, COST OF GOODS SOLD AND OPERATING EXPENSES

The inventories included in the Consolidated Balance Sheet are summarized by major classes as follows (000 omitted):

Raw and packaging materials	$100,879
In process	28,206
Finished products	271,331
	$400,416

The inventory amounts used in the computation of cost of goods sold and operating expenses in the Consolidated Statement of Income and Retained Earnings were as follows (000 omitted):

December 31, 1969	$392,818
December 31, 1970	353,865
December 31, 1971	369,880
December 31, 1972	400,416

(4) PROPERTIES AND EQUIPMENT

A summary of properties and equipment, at cost, follows (000 omitted):

Land	$ 80,355
Producing and undeveloped oil properties	10,598
Buildings	278,094
Machinery, equipment, etc.	717,679
Projects under construction	54,417
	1,141,143
Accumulated depreciation and depletion	(498,837)
	$ 642,306

In view of the variety of properties and the large number of depreciation rates, it is not considered practicable to set forth the rates used in computing the provisions for depreciation. However, the resulting average depreciation rates on a consolidated basis for the three years ended December 31, 1972 were as follows:

	1970	1971	1972
Buildings	4.3%	4.4%	4.3%
Machinery, equipment, etc.	7.3%	7.5%	7.3%

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(5) U.S. AND FOREIGN TAXES ON INCOME

In February 1972, at informal conferences with the Internal Revenue Service, the Company was informed that, as a result of its examination, IRS was proposing certain adjustments for the years 1965 through 1967. These proposed adjustments related primarily to the methods by which certain expenses had been allocated between domestic and foreign source income.

In April 1972, an agreement was reached with the IRS and as a result the Company recorded additional income taxes (including interest expense, net of tax) amounting to $12,000,000 on a retroactive basis for the seven year period 1965 through 1971. (See Note (a) of Notes to Consolidated Statement of Income and Retained Earnings for further information concerning this matter.)

The IRS has completed examinations of the consolidated U.S. Federal income tax returns of the Company and its domestic subsidiaries for 1967 and prior years, except that 1962 through 1967 are subject to Maritime adjustment.

Additional foreign and United States taxes might become payable if undistributed earnings of foreign subsidiaries were to be paid as dividends, but such taxes, if any, have not been fully provided since a substantial portion of such earnings has been or will be reinvested for an indefinite period of time. The amount of unremitted earnings of foreign subsidiaries as of December 31, 1972 is $106,000,000.

The investment tax credit reduced income tax provisions (before extraordinary items) in the three years ended December 31, 1972 as follows (000 omitted):

1970	$1,127
1971	1,420
1972	3,145

Additional investment tax credits related to extraordinary gains in 1971 have been included in extraordinary items in the Consolidated Statement of Income and Retained Earnings.

(6) LONG TERM DEBT

At December 31, 1972, long term debt consisted of the following (000 omitted):

	Interest Rates	Years of Maturity	Amount
W. R. GRACE & CO.			
Promissory notes	5 to 5⅛%	1972-91	$193,663
Promissory notes	6.8	1983	13,500
Revolving term loan (1)	5¾ to 6	1976-80	15,000
Subordinate debentures (2)	6½	1982-96	100,000
Subordinate debentures (3)	4¼	1976-90	61,681
Sundry indebtedness	4 to 6	1972-95	18,402
			402,246
SUBSIDIARY COMPANIES			
W. R. Grace Overseas Development Corporation (4)			
Debentures	5¾	1972-80	16,000
Debentures (3)	5	1976-86	14,996
Promissory note	7.21	1976-78	12,422
Other			2,250
Federation Chemicals Limited (5)	5¼ to 5¾	1972-77	9,476
Other Subsidiaries			47,405
			504,795
Amount due within one year			(25,724)
			$479,071

(1) In December 1972, the Company entered into an eight year term loan agreement under which it may borrow on a revolving basis up to $100,000,000 until December 1975. These borrowings bear interest

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at the prime rate for the first three years, after which the interest rate is increased to a maximum of over the prime rate. Outstanding borrowings at December 1975 are repayable in five equal an installments in the years 1976 through 1980. As of December 31, 1972, the Company had borrow total of $35,000,000 under this agreement, of which $15,000,000 has been classified as long term debt $20,000,000 included in loans payable in U.S. dollars as such amount was subsequently repaid.

(2) Issued in November 1971 and convertible into one share of W. R. Grace & Co. common stocl each $29.625 principal amount.

(3) Convertible into one share of W. R. Grace & Co. common stock for each $60.69 princ amount.

(4) Guaranteed by W. R. Grace & Co.

(5) The Company has agreed to purchase, at a set price, ammonia produced by Federation and u certain conditions to advance cash to Federation to meet payments required under its note agreemer

The aggregate amounts of long term debt payable during the five years subsequent to Decembe 1972 are as follows (000 omitted):

1973	$25,724
1974	24,784
1975	23,243
1976	32,554
1977	32,566

(7) CAPITAL STOCK

The preferred stocks ($100 par) authorized, issued and outstanding as at December 31, 1970, 1 and 1972, are listed below:

	Shares		Par Value of Shares Outstanding		
	Authorized and Issued	In Treasury			
	(December 31, 1972)		December 31,		
			1970	1971	1972
6% Cumulative(1)	40,000	13,126	$ 2,735,100	$ 2,721,700	$ 2,687,4
8% Cumulative Class A(2)	50,000	11,706	4,749,400	4,749,400	3,829,4
8% Noncumulative Class B(2)	40,000	4,718	3,668,200	3,668,200	3,528,2
			$11,152,700	$11,139,300	$10,045,0

(1) Eighty votes per share.
(2) Eight votes per share.

In 1972, the Company purchased 343 shares of 6% Cumulative (1970—117 shares; 1971— shares) 9,200 shares of 8% Cumulative Class A (1970—638 shares; 1971—none) and 1,400 shares o Noncumulative Class B (1970—1,269 shares; 1971—none) preferred stocks.

The Company's Certificate of Incorporation also authorizes 5,000,000 shares of a Class C prefe stock, without par value, none of which was issued or outstanding at December 31, 1972.

The holders of common stock are entitled to receive dividends, when and as declared by the Boar Directors, after prior and current year dividends on the 6% Cumulative and 8% Cumulative Cla preferred stocks and current year dividends on the 8% Noncumulative Class B preferred stock have b paid or accrued. Upon liquidation, after the payment of the par value of the preferred stocks and dividends referred to above, the remaining net assets of the Company are to be distributed pro rata tc holders of common stock.

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On December 31, 1972 the authorized common stock of the Company was 50,000,000 shares ($1 par). Changes in the number of shares of common stock issued and outstanding for the three years ended December 31, 1972 are summarized below:

	1970	1971	1972
Balance at beginning of year (as adjusted for poolings of interests—see Note 2(e))	26,368,975	26,394,697	26,572,977
Common stock issued upon:			
Exercise of stock options	—	5,810	2,581
Payment of incentive compensation	25,722	—	—
Acquisition of businesses in purchase transactions	—	112,000	141,692
Prior years poolings of interests	—	60,295	475,103
Other transactions	—	175	75,065
Balance at end of year	26,394,697	26,572,977	27,267,418

During 1970, the Company exchanged 2,310,866 shares of its common stock for nine businesses and in January and February 1971 the Company and its wholly owned subsidiary company, W. R. Grace Overseas Development Corporation, acquired the capital stock of three businesses for which approximately 1,800,000 additional shares of the Company's common stock have been or are expected to be issued (see Note 2(e)). During the balance of 1971, 1,228,988 shares of common stock of the Company were exchanged for six businesses (see Note 2(e)). During 1972, the Company exchanged 221,692 shares of its common stock for four businesses (see Note 2(e)).

Of the unissued common stock, approximately 9,089,000 shares may be issuable upon conversion of various convertible debt obligations, exercise of stock options and granting of stock awards, and as provided for in various acquisition agreements. These agreements provide for payments in stock in the years 1973 through 1976, the number of shares to be determined in accordance with prescribed formulas. Based upon these formulas, it is estimated that at December 31, 1972 the Company is committed to issue approximately 1,550,000 shares of its common stock.

(8) Stock Options, Bonus, Profit Sharing and Other Similar Plans

During the three years ended December 31, 1972, the Company had two stock option plans in effect, the 1963 Plan and the Stock Incentive Plan. In addition, there were outstanding a small number of options granted to former employees of companies acquired by the Company in substitution for options issued by the acquired companies.

The options granted under the two Plans and outstanding at December 31, 1972 expire at various times up to December 1, 1981. The options were granted for either five or ten years, and are exercisable at various times over such periods, but in not less than four approximately equal annual installments. Except in the case of options granted prior to March 1964, the installments remain exercisable until the options terminate.

In 1971, Chemed Corporation (see Note 2(c)) adopted a Stock Incentive Plan covering 584,000 shares of its capital stock. The options granted, which are nonstatutory options, become exercisable one year following the date of grant in five approximately equal annual installments. In connection with the original grant of Chemed options, outstanding options to purchase 66,335 shares of the Company's common stock, previously granted by the Company to certain key employees of the Company's Specialty Products Group, were surrendered or cancelled.

Outstanding options at December 31, 1972 granted to officer-directors, other officers and other employees to purchase 863,770 shares of the Company's common stock and 458,641 shares of Chemed Corporation capital stock are shown below. Of these numbers, 250,080 shares of the Company's outstanding options and 47,138 shares of Chemed Corporation's outstanding options were exercisable at December 31, 1972.

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Year Granted	Number of Shares	Option and Market Price at Date Granted: Per Share	Option and Market Price at Date Granted: In Total
W. R. GRACE & CO.			
1963	3,214	$44.49	$ 142,991
1968	27,775	37.75 to 46.00	1,107,409
1969	289,675	27.63 to 38.50	8,518,822
1970	233,306	22.88 to 29.50	5,690,462
1971	43,900	27.56 to 32.13	1,304,044
1972	265,900	25.38 to 29.00	6,843,775
	863,770		$23,607,503
CHEMED CORPORATION			
1971	310,441	$20.00	$ 6,208,820
1972	148,200	34.25 to 37.50	5,314,850
	458,641		$11,523,670

The options which became exercisable during the three years ended December 31, 1972 are summarized below:

Year Became Exercisable	Number of Shares	Option Price: Per Share	Option Price: In Total	Market Price at Date Exercisable: Per Share	Market Price at Date Exercisable: In Total
W. R. GRACE & CO.					
1970	90,983	$23.63 to 51.38	$3,092,841	$21.63 to 30.06	$2,354,247
1971	106,740	22.88 to 54.69	3,196,145	27.63 to 33.88	3,168,093
1972	102,455	22.88 to 46.00	2,867,304	25.00 to 30.25	2,774,669
CHEMED CORPORATION					
1972	66,097	$20.00	$1,321,940	$37.75	$2,495,162

The options which were exercised during the three years ended December 31, 1972 are summarized below:

Year Exercised	Number of Shares	Option Price: Per Share	Option Price: In Total	Market Price at Date Exercised: Per Share	Market Price at Date Exercised: In Total
W. R. GRACE & CO.					
1970	—	$ —	$ —	$ —	$ —
1971	5,810	22.88 to 30.50	137,051	22.50 to 34.06	182,586
1972	2,581	22.88 to 30.50	63,747	25.25 to 29.81	76,246
CHEMED CORPORATION					
1972	18,959	$20.00	$379,180	$31.50 to 40.00	$695,233

Stock options are accounted for when they are exercised and the purchase price is credited to capital stock and paid in capital.

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Certain employing units of Grace have incentive compensation plans for executive and other key employees. The amount of incentive awards are dependent upon the employee's contribution to efficient and profitable operations of the employing unit and, in some cases, incentive awards are based upon the earnings of the employing unit. Amounts accrued by the Company and its consolidated subsidiaries as incentive compensation in 1972 was $7,457,000 (1970—$6,594,000; 1971—$6,348,000).

(9) Retained Earnings

Retained earnings at December 31, 1972 include:

(a) $4,758,000 set aside by foreign subsidiaries, principally as required by statute.

(b) $8,614,000 of undistributed earnings of less than majority owned companies.

(c) Approximately $58,000,000 which has been transferred to capital stock accounts on the books of subsidiary companies.

Parent company unappropriated retained earnings at December 31, 1972 amounted to $369,595,000. Of these retained earnings, $56,600,000 were free of the restriction on payment of cash dividends imposed by the terms of the most restrictive of the Company's loan agreements.

(10) Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries have paid in 1972 and are obligated thereafter under noncancellable leases, principally for real property, for the following minimum annual rentals which will not materially differ from actual rental obligations (000 omitted):

1972	$23,797
1973	22,738
1974	20,363
1975	18,213
1976	16,769
1977	15,503

These amounts do not include lease rental payments for new corporate offices commencing in 1973 at the present average minimum annual rental of $3,200,000.

As partial consideration for a prior year acquisition of a European food products company, the Company's wholly owned subsidiary company, W. R. Grace Overseas Development Corporation, delivered shares of its preferred stock (convertible into approximately 500,000 shares of the Company's common stock) having a liquidation value of 51,570,000 Swiss francs, which translated to U.S. dollars at December 31, 1972 approximated $13,500,000. A final delivery of preferred stock having a liquidation value of 51,570,000 Swiss francs is to be made in January 1974.

The unfunded amount of prior service pension costs at December 31, 1972 was estimated to be $12,489,000. In 1972, pension expense under various retirement plans amounted to $9,202,000 (1970—$7,057,000; 1971—$7,514,000).

There are various lawsuits, claims, commitments and contingent liabilities, including contingencies arising in connection with agreements for the sale of interests in businesses formerly owned by the Company, which are not expected to have any material adverse effect on the consolidated financial position or results of operations.

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W. R. GRACE & CO. AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

(11) SUPPLEMENTARY INCOME STATEMENT INFORMATION

Items	Charged to Costs and Expenses Year Ended December 31, 1970	1971	1972
		(in thousands)	
Maintenance and repairs	$47,131	$51,619	$54,299
Depreciation, depletion and amortization of property, plant and equipment	58,620	57,715	60,900
Taxes, other than income taxes:			
Social law contributions	32,403	34,475	42,310
Sales and export taxes	22,365	16,598	22,224
Other	12,885	13,086	14,768
Rents	23,803	27,641	34,708

TAX EXEMPTION

Generally, interest on obligations of a state or a political subdivision of a state is exempt from Federal income taxation. Section 103(c) of the Internal Revenue Code of 1954, as amended, however, provides that interest on any such obligation which is an "industrial development bond" shall not be exempt. An exception to this provision is created by Section 103(c)(4)(F) for issues of industrial development bonds where substantially all of the proceeds are used to provide air or water pollution control facilities and Section 103(c)(6) for certain small issues of industrial development bonds, unless the holder of the bond is a substantial user of the facility or a "related person", as such term is defined in the regulations of the Internal Revenue Service with respect to such Section.

In the opinion of Chapman and Cutler, bond counsel, based on existing statutes, regulations, court decisions and a Ruling of the Internal Revenue Service dated April 10, 1973, the interest on the Bonds is exempt from all present Federal income tax (except that no opinion is expressed with respect to interest on any Bonds for any period during which such Bond is held by a person who is a substantial user or "related person").

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, issuance and sale by the County of the Bonds and with regard to the tax-exempt status thereof under existing laws are subject to the approving opinion of Messrs. Chapman and Cutler, Bond Counsel. Copies of such opinion will be available at the time of the delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by their counsel, Messrs. Kutak Rock Cohen Campbell Garfinkle & Woodward.

EXPERTS

The financial statements of W. R. Grace & Co. and subsidiary companies included herein have been so included in reliance on the report of Price Waterhouse & Co., independent accountants, and on their authority as experts in accounting and auditing.

This Official Statement was duly approved by Lincoln County, Montana on this day of , 1973.

LINCOLN COUNTY, MONTANA

By .....

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