1229

PRESENTED TO DIRECTORS' MEETING 9-3-54



AGREEMENT OF MERGER

and

ARTICLES OF CONSOLIDATION

AGREEMENT OF MERGER made as of the 2nd day of September, 1954 between a majority of the BOARD OF DIRECTORS of W. R. GRACE & Co., a business corporation organized and incorporated under the laws of Connecticut on June 20, 1899, and a majority of the BOARD OF DIRECTORS of DEWEY AND ALMY CHEMICAL COMPANY, a business corporation organized and incorporated under the laws of Massachusetts on June 12, 1919, and said W. R. GRACE & Co and said DEWEY AND ALMY CHEMICAL COMPANY, pursuant to the laws of Connecticut; and ARTICLES OF CONSOLIDATION of said W. R. GRACE & Co. (hereinafter called "Grace") and said DEWEY AND ALMY CHEMICAL COMPANY (hereinafter called "Dewey and Almy") into W. R. GRACE & Co. pursuant to Section Forty-six D of Chapter One Hundred and Fifty-six of the General Laws of Massachusetts; (this Agreement of Merger and Articles of Consolidation being sometimes hereinafter referred to as the "Agreement").

WHEREAS, GRACE is a corporation organized and existing under No. 482 of the special laws of 1899 of the General Assembly of the State of Connecticut, as amended by No. 280 of the special laws of 1905, No. 107 of the special laws of 1913, No. 252 of the special laws of 1951 and No. 316 of the special laws of 1953 of said General Assembly, and

WHEREAS, said special law No. 316 of 1953 authorizes Grace to merge into itself other corporations (including a Massachusetts corporation) in accordance with the terms and conditions specified therein, and

WHEREAS, the Boards of Directors of Grace and of Dewey and Almy deem it advisable and to the benefit and advantage of their respective corporations and the stockholders thereof, under present circumstances, that said corporations merge as herein provided, and

WHEREAS, the Board of Directors of Grace has determined that such merger shall be in furtherance of the objects for which Grace was formed,

NOW, THEREFORE, in consideration of the premises and the mutual agreements, covenants and provisions herein contained and other good and valuable consideration the receipt of which is hereby acknowledged, the respective parties hereto, for the purpose of effecting a merger under and by virtue of the laws of the State of Connecticut and of the Commonwealth of Massachusetts, hereby agree as follows:

FIRST: Grace merges into itself Dewey and Almy and Dewey and Almy shall be merged into Grace.

SECOND: The resulting corporation shall be Grace (hereinafter called the "Resulting Corporation"), which shall continue as incorporated under said number 482 of the special laws of 1899, as amended, of the State of Connecticut. The name of the Resulting Corporation and that by which it shall be known shall be W. R. Grace & Co.

THIRD: The name of the town in Connecticut in which the Resulting Corporation is to be located is Norwalk. The location of the principal office of the Resulting Corporation is to be 7 Hanover Square, New York, New York, and in Massachusetts the principal office of the Resulting Corporation shall be 62 Whittemore Avenue, Cambridge, Massachusetts.

FOURTH: The purposes for which the Resulting Corporation is formed, the nature of the business to be transacted and the purposes to be transacted, promoted or carried out by the Resulting Corporation

are those for which Grace was incorporated under said number 482 of the special laws of 1899 of the State of Connecticut as follows:

"The objects for which and for any and all of which the said corporation is formed and which said corporation shall have the right to do are any and all of the things herein set forth to the same extent as natural persons might or could do in any part or parts of the world, viz.: To carry on business as merchants, manufacturers, commission agents, financiers, bankers, brokers, contractors, and concessionaires; to accept and execute contracts of all kinds with individuals, corporations, public authorities, or governments; to purchase the stock, bonds, and other obligations of other corporations, and to guarantee the payment of the same; to construct public works, and to operate the same; to construct or purchase vessels and to engage in the business of transportation by rail and by water; to buy and sell all real and personal property of every kind and description, as to it may seem proper in connection with its business, and to mortgage or pledge the same for any of said purposes, and to carry on the business of mining; provided, however, that said corporation shall not carry on any banking business or railroad business within the State of Connecticut."

FIFTH: The By-Laws of the Resulting Corporation shall be the By-Laws of Grace in effect when the merger becomes effective.

SIXTH: The directors of the Resulting Corporation shall be 23 in number, and such number may be increased or decreased in the manner permitted by law and by the by-laws of the Resulting Corporation. The present 23 directors of Grace shall continue as directors of the Resulting Corporation. The names and places of residence of the first directors and principal officers of the Resulting Corporation (who shall retain such capacities until their successors are selected according to law or according to the by-laws of the Resulting Corporation) are as follows:

Name	Position	Residence
W. G. Holloway	Chairman of the Board of Directors	Foxland, Old Westbury, N. Y.
Harold J. Roig	Director	Kings Point, Great Neck, N. Y.
John H. Phipps	Director	Ayavalla Plantation, Box 707, Tallahassee, Fla.
E. A. Eyre	Director	760 Park Avenue, New York, N. Y.
J. Peter Grace, Jr.	Director and President	Wheatley Road, Old Westbury, N. Y.
Andrew B. Shea	Director and First Vice President	125 Station Road, Great Neck, N. Y.
John J. Burns	Director	89 Fletcher Road, Belmont, Mass.
Frank C. Walker	Director	Hotel Casey, Scranton, Pa.
John C. Griswold	Director and Vice President	Delafield Island, Darien, Conn.
L. H. Odell	Director and Vice President	310 Bridge Road, San Mateo, California
John T. Cahill	Director	15 East 72nd Street, New York 21, N. Y.
Robert T. Haslam	Director	9 Shore Lane, Short Hills, N. J.
Bradley Dewey	Director	989 Memorial Drive, Cambridge 38, Mass.
Michael G. Phipps	Director	450 North County Road, Palm Beach, Fla.
A. S. Rupley	Director and Vice President	277 Park Avenue, New York 17, N. Y.
Charles E. Wilson	Director and Chairman of Executive Committee	7 Hampton Road, Scarsdale, N. Y.
John T. Madden	Director	22 East 36th Street, New York 16, N. Y.
C. C. Mallory	Director and Vice President	34 Greenfield Avenue, Bronxville, N. Y.
Roger Milliken	Director	778 Park Avenue, New York, N. Y.

Name	Position	Residence
William P. Gage	Director	31 Kent Road, Scarsdale, N. Y.
Chester F. Hockley	Director	Fork, Baltimore County, Md.
Marlin G. Geiger	Director	121 Taplow Road, Baltimore, Md.
Hugh S. Ferguson	Director	42 Tyler Road, Belmont, Mass.
Lucas A. Alden	Vice President and Comptroller	24 Polo Field Lane, Lake Success, Great Neck, N. Y.
W. H. Clayton	Vice President	1023 Central Avenue, Plainfield, N. J.
W. F. Cogswell	Vice President and Secretary	141 East 72nd Street, New York, 21, N. Y.
William Flatow	Vice President	168 W. 86th Street, New York 24, N. Y.
Carlos Garcia Gastañeta	Vice President	Av. Progreso 242, Miraflores, Lima, Peru
J. E. Godoy	Vice President	25 East 9th Street, New York 3, N. Y.
E. Russell Lutz	Vice President	1427 34th Street N. W., Washington, D. C.
John D. J. Moore	Vice President	33 Brooklawn Drive, Short Hills, N. J.
Raul Simón	Vice President	Avenida Cristobal Colon 1000, Santiago, Chile
James H. Stebbins	Vice President	4 East 72nd Street, New York 21, N. Y.
T. C. Stockhausen	Vice President and Treasurer	47 East 87th Street, New York 28, N. Y.
Gustavo Vidal	Vice President	187 Garth Road, Scarsdale, N. Y.

SEVENTH: The total number of shares which each corporation included in the merger (*i.e.*, Grace and Dewey and Almy) has been authorized to issue, the par value, if any, the terms thereof, and the amount of stock issued are as follows:

W. R. GRACE & CO.

Class of Stock	Par Value	Total Number of Shares Authorized	Total Number of Shares Issued	Full-Paid Stock Number of Shares Issued for		
				Cash	Property	Services or Expenses
Preferred	$100	40,000	40,000	40,000		
Class A Preferred	$100	50,000	50,000		50,000[2]	
Class B Preferred	$100	40,000	40,000		40,000[2]	
Common	None	4,157,931[1]	3,208,352		3,208,352[2]	

Installment stock—None; all stock is full-paid

(1) Included in this amount are 215,295 shares reserved for issuance under the terms of stock option plans, 144,256 shares reserved for possible conversions of 4¼% Convertible Subordinate Debentures due May 1, 1974 outstanding under an Indenture dated May 1, 1954, and 590,018 shares which have been authorized for issuance to such persons, firms or corporations as the Board of Directors may from time to time determine, in exchange for the assets of other corporations or of partnerships or of individuals or stock of other corporations.

(2) The 50,000 shares of Class A Preferred Stock, the 40,000 shares of Class B Preferred Stock and 2,610,000 shares of the Common Stock were issued by Grace in exchange for the surrender and cancellation of its own stock. The balance of the shares of the Common Stock were issued as follows: 84,764 shares in exchange for the assets and business of the Thurston Chemical Company; 75,218 shares in exchange for Common Stock of The Davison Chemical Corporation; approximately but not in excess of 438,241 shares to common stockholders of The Davison Chemical Corporation when it was merged into Grace; and 129 shares in exchange for Grace's 4¼% Convertible Subordinate Debentures when the latter were surrendered for conversion into Common Stock.

The terms of the various classes of Grace's stock are set forth in Article Eighth hereof.

DEWEY AND ALMY CHEMICAL COMPANY

Class of Stock	Par Value	Total Number of Shares Authorized	Total Number of Shares Issued	Full-Paid Stock Number of Shares Issued for: Cash	Property	Services or Expenses
Preferred		None	None			
Common	$1	1,500,000	915,669*	339,600	576,069**	None

Installment stock—None; all stock is full-paid

* Does not include 115,952 shares certified for issue and held for conversion of debentures, 89,600 shares held for conversion of Grace note, and 50,000 shares held for conversion of stock options.

Terms of issue—See Articles of Organization and the following certificates of issue on file with Secretary of the Commonwealth—(1) July 19, 1919; (2) October 29, 1924; (3) March 17, 1928; (4) January 19, 1929; (5) August 27, 1937; (6) September 25, 1937; (7) December 6, 1938; (8) February 14, 1940; (9) February 20, 1941; (10) December 19, 1941; (11) December 10, 1943; (12) December 4, 1944; (13) May 26, 1948; (14) January 23, 1951; (15) February 9, 1951; (16) March 15, 1951; (17) May 1, 1951; (18) February 1, 1952; (19) February 11, 1954; (20) August 9, 1954.

** *Description of property*—Securities (See certificate of issue August 9, 1954).

EIGHTH: The total shares of capital stock of the Resulting Corporation to be authorized and the amount and classes of the authorized capital stock of the Resulting Corporation shall be as follows: the amount and classes of the authorized capital stock of Grace when the merger becomes effective—namely, 40,000 shares of Preferred Stock of the par value of $100 per share, 50,000 shares of Class A Preferred Stock of the par value of $100 per share, 40,000 shares of Class B Preferred Stock of the par value of $100 per share and 4,157,931 shares of Common Stock, without nominal or par value, or, if such Common Stock shall have been changed to stock having a par value of $1 per share then 4,157,931 shares of such Common Stock. At the same meeting at which this Agreement will be submitted for approval by the stockholders of Grace, such stockholders will be requested to authorize and consent to the issuance of an additional 1,065,321 shares of Grace's Common Stock, for use in connection with the transactions contemplated by this Agreement and in connection with possible conversion into Common Stock of the Resulting Corporation, after the merger becomes effective, of Dewey and Almy's Convertible 2¾% Debentures which will be assumed by the Resulting Corporation on the merger, or possible conversions, after the merger becomes effective, into Common Stock of the Resulting Corporation of any convertible debenture of the Resulting Corporation which has been issued in exchange for such Convertible 2¾% Debentures. If such authorization is given, the number of authorized shares of Common Stock of the Resulting Corporation will be 5,223,252 shares. The method of voting upon all questions at meetings of stockholders of the Resulting Corporation shall be one vote for every share of Preferred Stock, one vote for every ten shares of Class A Preferred Stock, one vote for every ten shares of Class B Preferred Stock and one vote for every forty shares (less than forty shares to have a proportionate fractional vote) of Common Stock. The nature of the preferences of such preferred stocks is set forth in Exhibit A hereto annexed.

NINTH: The amount of the capital stock of the Resulting Corporation to be issued after the merger and which the Resulting Corporation will have outstanding immediately after the merger will be all of the preferred stocks identified in Article EIGHTH and 4,107,721 shares of the Common Stock identified in said Article (i.e., 3,208,352 shares of Grace Common Stock presently outstanding plus 899,369 shares of Common Stock of the Resulting Corporation issued in exchange for the presently outstanding shares of Common Stock of Dewey and Almy), plus such additional number of shares of such Common Stock of the Resulting Corporation as may be required to be issued prior to the time the merger becomes effective by reason of conversions into its Common Stock of Grace's presently outstanding 4¼% Convertible Subordinate Debentures and by reason of the exercise of stock options in respect of 15,295 shares of Grace stock, and not exceeding 255,552 shares as may be required to be issued by reason of conversions of Dewey and Almy's Convertible 2¾% Debentures, by reason of the conversion of Dewey and Almy's

convertible note held by Grace and by reason of the issuance by Dewey and Almy of shares of its Common Stock pursuant to the stock option contracts presently outstanding under its Restricted Stock Option Plan. The amount of consideration to be received by the Resulting Corporation for the issuance of such of its shares as will be substituted upon conversion for issued and outstanding shares of Dewey and Almy shall be deemed to be the consideration for which such previously issued shares of Dewey and Almy were issued (see Article SEVENTH hereof).

TENTH: The duration of the Resulting Corporation shall be unlimited.

ELEVENTH: The manner of converting the shares of capital stock of Grace and Dewey and Almy into shares of capital stock of the Resulting Corporation shall be as follows:

(a) Each share of Preferred Stock of the par value of $100 per share of Grace which shall be issued and outstanding on the effective date of the merger shall continue to be one share of Preferred Stock of the par value of $100 per share of the Resulting Corporation.

(b) Each share of Class A Preferred Stock of the par value of $100 per share of Grace which shall be issued and outstanding on the effective date of the merger shall continue to be one share of Class A Preferred Stock of the par value of $100 per share of the Resulting Corporation.

(c) Each share of Class B Preferred Stock of the par value of $100 per share of Grace which shall be issued and outstanding on the effective date of the merger shall continue to be one share of Class B Preferred Stock of the par value of $100 per share of the Resulting Corporation.

(d) Each share of Common Stock without nominal or par value of Grace which shall be issued and outstanding on the effective date of the merger shall continue to be one share of Common Stock without nominal or par value of the Resulting Corporation, unless Grace shall have changed its Common Stock to $1 par value Common Stock, in which case each share of $1 par value Common Stock of Grace shall continue to be one share of Common Stock of $1 par value of the Resulting Corporation.

(e) Each share of Common Stock of the par value of $1 per share of Dewey and Almy, issued and outstanding on the effective date of the merger (excluding any shares then held in the treasury of Dewey and Almy and excluding any shares then owned by Grace, all of which shares shall cease to exist and certificates representing such shares shall be cancelled) shall be converted into one share of Common Stock, without nominal or par value of the Resulting Corporation or, if Grace shall have previously changed its Common Stock to $1 par value stock, into one share of Common Stock having a $1 par value, of the Resulting Corporation.

(f) On or after the effective date of the merger each holder of an outstanding certificate or certificates theretofore representing shares of Common Stock of Dewey and Almy shall surrender the same to the Resulting Corporation, and such holder shall be entitled upon such surrender to receive in exchange therefor a certificate or certificates representing the same number of shares of Common Stock of the Resulting Corporation. Until so surrendered, each outstanding certificate which prior to the effective date of the merger represented shares of Common Stock of Dewey and Almy shall be deemed for all corporate purposes, other than payment of dividends, to evidence the ownership of the shares of Common Stock of the Resulting Corporation into which such shares have been so converted. Unless and until any such outstanding certificates shall be so surrendered no dividend payable to the holders of record of the Common Stock of the Resulting Corporation as of any date subsequent to the effective date of the merger shall be paid to the holders of such outstanding certificates, but upon such surrender of any such outstanding certificates there shall be paid to the record holders of the certificates of Common Stock of the Resulting Corporation issued in exchange therefor the amount of dividends which theretofore became payable with respect to the number of shares of Common Stock of the Resulting Corporation represented by the certificates so issued in exchange.

(g) If a certificate for any shares of Common Stock of the Resulting Corporation is to be issued in a name other than that in which a certificate surrendered in exchange therefor is registered, it shall be a condition of the issuance thereof that the certificate so surrendered shall be prop-

erly endorsed for transfer and that the person requesting such exchange pay to the Resulting Corporation any transfer or other taxes required by reason thereof or establish to the satisfaction of the Resulting Corporation that such tax has been paid or is not payable.

(h) The Resulting Corporation shall not be required to issue any fraction of a share of Common Stock in connection with such conversion but, in lieu thereof, shall pay to each person otherwise entitled thereto an amount in cash equal to such fraction multiplied by the last sales price (or bid price if there be no sales) of the Common Stock on the day the merger becomes effective (or if there be no bid on such day, the last preceding sales price).

TWELFTH: Consolidated balance sheets for Grace and for Dewey and Almy as of December 31, 1953 are annexed hereto as Exhibits B and C.

THIRTEENTH: Prior to the time the merger becomes effective (i) Dewey and Almy will not issue or sell or issue rights to subscribe for any shares of its capital stock, except Dewey and Almy may issue such shares of its Common Stock, not exceeding 255,552, as may be necessary for it to fulfill its obligations under stock option contracts presently outstanding under its Restricted Stock Option Plan and as it may be obligated to issue by reason of conversion of its Convertible 2¾% Debentures and its promissory note to Grace, (ii) Grace will not declare or pay any dividend on its Common Stock other than quarterly dividends of not more than forty cents per share plus such year-end extra dividend (not exceeding forty cents per share) as Grace's Directors may deem advisable and declare, and (iii) Dewey and Almy will not declare or pay any dividend on its capital stock other than quarterly dividends of not more than thirty cents per share, plus such year-end extra dividend (not exceeding thirty cents per share) as Dewey and Almy's directors may deem advisable and declare.

FOURTEENTH: When the merger becomes effective:

(a) all and singular, the rights, privileges, good will and franchises except as restricted by law, and all property, real, personal and mixed, and all debts due on whatever account, and all other things in action, belonging to Dewey and Almy shall be, and they hereby are, bargained, conveyed, granted, confirmed, transferred, assigned and set over to and vested in the Resulting Corporation without further act or deed, and all property, rights, and all and every other interest of Grace and Dewey and Almy, shall be as effectively the property of the Resulting Corporation as they were of Grace and Dewey and Almy. Dewey and Almy hereby agrees from time to time, as and when requested by the Resulting Corporation or by its successors or assigns, to execute and deliver, or cause to be executed and delivered, all such deeds and instruments, and to take, or cause to be taken, such further or other action as the Resulting Corporation may deem necessary or desirable in order to vest in and confirm to the Resulting Corporation title to, and possession of, any property of Dewey and Almy acquired or to be acquired by reason of or as a result of the merger provided for in this Agreement and otherwise to carry out the intent and purposes of this Agreement and the proper officers and directors of Dewey and Almy and the proper officers and directors of the Resulting Corporation are fully authorized in the name of Dewey and Almy or otherwise to take any and all such action; and

(b) the assets and liabilities of Grace and Dewey and Almy shall be taken up or continued on the books of the Resulting Corporation at the amounts at which they respectively shall be carried at that time on the books of Grace and Dewey and Almy; and

(c) all rights of creditors and liens upon the property of Grace and Dewey and Almy, and each of them, shall be preserved unimpaired, and all the debts, liabilities (including liabilities of Dewey and Almy to option holders on account of rights not theretofore exercised under stock option contracts presently outstanding under its Restricted Stock Option Plan) and duties of Grace and Dewey and Almy shall attach to and be assumed by the Resulting Corporation and shall be enforceable against the Resulting Corporation to the same extent as if all of said debts, liabilities and duties had been incurred or contracted by it. The merger shall be without prejudice to the aforesaid

stock-option contracts which shall continue in accordance with their terms except that upon the exercise of an option after the effective date of the merger by the person or persons entitled thereto, he or they shall receive, instead of Dewey and Almy stock, one share of the Common Stock (as constituted immediately after the merger becomes effective) of the Resulting Corporation for every share of Dewey and Almy stock in respect of which the option was exercised at the option price per share specified in the option agreement; and

(d) the corporate entity, existence and all the property, rights, powers, franchises and immunities of Grace shall continue unimpaired; and

(e) the corporate name, entity and separate existence of Dewey and Almy, except insofar as the same may be continued by statute, shall terminate and said corporation shall cease to be a corporation organized and existing under the laws of the Commonwealth of Massachusetts.

Without limitation upon the generality of the foregoing, Grace hereby expressly assumes, when the merger becomes effective, the due and punctual payment of principal of and interest on all debentures issued under and pursuant to a debenture indenture dated as of July 1, 1946, between Dewey and Almy and Old Colony Trust Company (hereinafter called "the Dewey and Almy indenture") and the observance of and the performance of all the covenants and conditions of the Dewey and Almy indenture, as the same may have been amended or modified prior to the effective date of the merger referred to herein. After the merger shall have become effective, the bearer or registered owner of any debenture issued pursuant to such indenture shall be entitled to receive upon conversion of such debenture, in lieu of common stock of Dewey and Almy, a number of shares of the Common Stock of the Resulting Corporation equal to the number of shares of common stock of Dewey and Almy that he would have received upon conversion had there been no merger.

The foregoing provisions shall not limit any statutory provisions (whether or not inconsistent herewith) applicable to the assets, rights, liabilities and obligations of the corporate parties to this Agreement.

FIFTEENTH: The Resulting Corporation agrees that it may be sued in the Commonwealth of Massachusetts for any prior obligation of Dewey and Almy or of Grace and any obligation hereafter incurred by the Resulting Corporation, including the obligation created by Massachusetts General Laws, Chapter 156, Section 46E, so long as any liability remains outstanding against the corporation in such Commonwealth, and the Resulting Corporation hereby irrevocably appoints the Commissioner of Corporations and Taxation of the Commonwealth of Massachusetts and his successor in office as its agent to accept service of process in any action for the enforcement of any such obligation, including taxes, in the same manner as provided in Chapter 181 of the Massachusetts General Laws.

SIXTEENTH: Anything herein or elsewhere contained to the contrary notwithstanding, this Agreement may be terminated and abandoned at any time prior to the effective date of the merger, (a) by action of a majority of the entire Board of Directors of Grace and of a majority of the entire Board of Directors of Dewey and Almy, or (b) by action of the Board of Directors of Grace, (i) if the stockholders of Grace shall not authorize at a special meeting to be held for that purpose the issuance of the number of shares of Common Stock of Grace which are required to carry out the terms of this Agreement and which may be required for delivery to holders of Dewey and Almy's Convertible 2¾% Debentures who may convert the same into common stock of Grace after the merger becomes effective or holders who elect, after the merger becomes effective, to convert into Common Stock of the Resulting Corporation any Convertible Debenture of the Resulting Corporation which has been issued in exchange for such Convertible 2¾% Debentures, or (ii) if such stockholders shall not at such meeting authorize the change of the Common Stock of Grace from common stock without nominal or par value to a common stock having a par value of $1 per share, or (iii) if the merger is deemed impracticable by Grace's Board of Directors by reason of the claims which could be made by stockholders of Grace or by stockholders of Dewey and Almy or by stockholders of both such corporations to pay to them in cash the value of their stock, provided, however, that the merger shall not be deemed impracticable unless the amount as estimated by Grace's Board of Directors which might be payable to all such stockholders would exceed four million dollars. Except as hereinabove provided, this Agreement may not be terminated and abandoned by the Board of Directors of either Grace or Dewey and Almy.

SEVENTEENTH: This Agreement shall be submitted to the stockholders of Grace and to the stockholders of Dewey and Almy at a meeting of each corporation separately called and held for the purpose of considering the same and if, at such meeting of the stockholders of Grace, the holders of at least two-thirds of the total number of shares of the issued and outstanding capital stock of each class, and, at such meeting of the stockholders of Dewey and Almy, the holders of at least two-thirds of the total number of shares of its only class of issued and outstanding capital stock shall vote to approve the merger, either upon the terms of this Agreement as submitted or with such additions or amendments thereto as may be approved at such stockholders' meetings, this Agreement of Merger and Articles of Consolidation, as so submitted or as so amended, together with the certification of each such corporation under the respective corporate seals of the proper adoption thereof, shall, subject to the terms and conditions of this Agreement, be filed with the Secretary of State of the State of Connecticut and submitted for approval of the Commissioner of Corporations and Taxation of the Commonwealth of Massachusetts and then filed in the office of the Massachusetts State Secretary. When this Agreement of Merger and Articles of Consolidation shall have been filed in the office of the Massachusetts State Secretary and filed with the Secretary of State of the State of Connecticut the merger referred to herein shall become effective, it being agreed that both such filings, subject to the provisions of Article SIXTEENTH hereof, shall be accomplished no later than twenty-five days following approval thereof as required by law by (i) the stockholders of Grace or (ii) the stockholders of Dewey and Almy, whichever of (i) or (ii) shall occur later.

EIGHTEENTH: All references in this Agreement to a "consolidation" are included in this Agreement because of certain terminology applicable to mergers in the Business Corporations Law of Massachusetts. Such term does not in any way imply that the transaction provided for herein is not a merger as the term is defined in Corporation Laws of Connecticut.

In Witness Whereof, Grace and Dewey and Almy, the corporation parties to the merger, have caused this Agreement to be signed in their respective corporate names and on their behalf by their respective presidents and treasurers and their respective corporate seals to be hereunto affixed and attested by their respective secretaries or clerks, and a majority of the directors of each of such corporations have hereunto set their hands as of the day and year first above written, all under the penalties of perjury.

(Seal)

W. R. GRACE & CO.

Attest:

By _____
President

_____
Secretary

By _____
Treasurer

By _____

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DEWEY AND ALMY CHEMICAL COMPANY

(Seal)

By _____
President

By _____
Treasurer

ATTEST:

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Clerk

By _____

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Directors
of
DEWEY AND ALMY
CHEMICAL COMPANY

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.: , 1954

I, W. F. COGSWELL, Secretary of W. R. GRACE & Co., a corporation organized under special laws of the State of Connecticut hereby certify that the foregoing agreement was on the day of , 1954 submitted to the stockholders of said corporation at a meeting called for the purpose of considering the same, notice thereof having been given, as required by law, and that two-thirds or more of all outstanding stock of each class voted to approve such merger.

(Seal)

Secretary of W. R. GRACE & Co.

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.: , 1954

Personally appeared W. F. COGSWELL, Secretary of W. R. GRACE & Co. and made oath to the truth of the foregoing certificate by him signed, before me.

Notary Public

THE COMMONWEALTH OF MASSACHUSETTS }
COUNTY OF MIDDLESEX } ss.: , 1954

I, WILLIAM T. SNOW, Clerk of DEWEY AND ALMY CHEMICAL COMPANY, a corporation organized under the statute laws of the Commonwealth of Massachusetts hereby certify that the foregoing agreement was on the day of , 1954 submitted to the stockholders of said corporation at a meeting called for the purpose of considering the same, notice thereof having been given, as required by law, and that two-thirds or more of all the outstanding stock of its only class voted to approve such merger.

(Seal)

Clerk of DEWEY AND ALMY CHEMICAL COMPANY

THE COMMONWEALTH OF MASSACHUSETTS }
COUNTY OF MIDDLESEX } ss.: , 1954

Personally appeared WILLIAM T. SNOW, Clerk of DEWEY AND ALMY CHEMICAL COMPANY and made oath to the truth of the foregoing certificate by him signed, before me.

Notary Public

My Commission expires

AFFIDAVIT by subscribing officers and directors of W. R. GRACE & CO.

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

We, the undersigned, President, Treasurer, and a majority of the Board of Directors of W. R. GRACE & Co., a constituent corporation named in the foregoing Agreement of Merger and Articles of Consolidation, state under the penalties of perjury that we have been authorized to execute and file such Agreement and Articles by affirmative vote of not less than two-thirds of each class of stock outstanding and entitled to vote, at a stockholders' meeting duly called and held on , 1954, for the purpose of approving said Agreement of Merger and Articles of Consolidation, notice of such meeting, stating the action proposed to be taken thereat, having been mailed to every stockholder of said corporation at least thirty days prior to such meeting.

WITNESS our hands this day of , 1954.

_____, President _____, Treasurer

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Majority of Board of Directors

Sworn to before me this
day of , 1954.

_____
Notary Public

AFFIDAVIT by subscribing officers and directors of DEWEY AND ALMY CHEMICAL COMPANY

THE COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF MIDDLESEX) ss.:

WE, the undersigned, President, Treasurer, and a majority of the Board of Directors of DEWEY AND ALMY CHEMICAL COMPANY, a constituent corporation named in the foregoing Agreement of Merger and Articles of Consolidation, state under the penalties of perjury that we have been authorized to execute and file such agreement and articles by affirmative vote of not less than two-thirds of each class of stock outstanding and entitled to vote, at a stockholders' meeting duly called and held on , 1954, for the purpose of approving said Agreement of Merger and Articles of Consolidation, notice of such meeting, stating the action proposed to be taken thereat, having been mailed to every stockholder of said corporation at least thirty days prior to such meeting.

WITNESS our hand this day of , 1954.

_____, President

_____, Treasurer

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Majority of Board of Directors

EXHIBIT A

to

AGREEMENT OF MERGER AND ARTICLES OF CONSOLIDATION

The holders of the Preferred Stock shall be entitled to receive, when and as declared from the surplus or net profits of the corporation yearly dividends at the rate of six (6%) per cent. per annum and no more. The dividends on the Preferred Stock shall be cumulative and shall be paid or declared and set apart before any dividend on the Class A Preferred Stock or Class B Preferred Stock or Common Stock shall be paid or set apart; so that, if in any year dividends on the Preferred Stock amounting to six (6%) per cent. shall not have been paid or declared and set apart, the deficiency shall be payable before any dividends shall be paid upon or set apart for the Class A Preferred Stock or the Class B Preferred Stock or the Common Stock.

In the event of the liquidation or dissolution or winding up (whether voluntary or involuntary) of the corporation, the holders of the Preferred Stock shall be entitled to be paid in full the par amount of their shares and any unpaid dividends accrued thereon, before any amount shall be paid to the holders of the Class A Preferred Stock or the Class B Preferred Stock or the Common Stock; and after the payment to the holders of the Preferred Stock of its par value and any unpaid accrued dividends thereon, the remaining assets of the corporation shall be distributed among the holders of the Class A Preferred Stock and the Class B Preferred Stock and the Common Stock as hereinafter provided.

The holders of the Class A Preferred Stock shall be entitled to receive, when and as declared from the surplus or net profits of the corporation yearly dividends at the rate of eight (8%) per cent. per annum and no more. The dividends on the Class A Preferred Stock shall be cumulative from and after January 1, 1928, and shall be paid or declared and set apart before any dividend on the Class B Preferred Stock or Common Stock shall be paid or set apart; so that, if in any year after the year 1927 dividends on the Class A Preferred Stock amounting to eight (8%) per cent. shall not have been paid or declared and set apart, the deficiency shall be payable before any dividends shall be paid upon or set apart for the Class B Preferred Stock or the Common Stock.

In the event of the liquidation or dissolution or winding up (whether voluntary or involuntary) of the corporation, the holders of the Class A Preferred Stock shall be entitled to be paid in full the par amount of their shares and any unpaid dividends accrued thereon, before any amount shall be paid to the holders of the Class B Preferred Stock or the Common Stock; and after the payment to the holders of the Class A Preferred Stock of its par value, and any unpaid accrued dividends thereon, the remaining assets of the corporation shall be distributed among the holders of the Class B Preferred Stock and the Common Stock as hereinafter provided.

The holders of the Class B Preferred Stock shall be entitled to receive, when and as declared from the surplus or net profits of the corporation a dividend of Eight Dollars ($8.00) per share for the year 1928 and thereafter yearly dividends at the rate of eight (8%) per cent. per annum and no more. Dividends on the Class B Preferred Stock shall not be cumulative, but shall be paid or declared and set apart each year commencing with the year 1928 before any dividend for the same year shall be paid upon or set apart for the Common Stock.

In the event of the liquidation or dissolution or winding up (whether voluntary or involuntary) of the corporation, the holders of the Class B Preferred Stock shall be entitled to be paid in full the par amount of their shares and any unpaid dividends declared thereon for the current year, before any amounts shall be paid to the holders of the Common Stock; and after the payment to the holders of the Class B Preferred Stock of its par value and any unpaid dividends declared thereon for the current year, the remaining assets of the corporation shall be distributed among the holders of the Common Stock according to their respective shares.

Whenever all cumulative dividends on the Preferred and on the Class A Preferred Stock for all previous years shall have been paid, and the dividends on the Preferred Stock, Class A Preferred Stock and Class B Preferred Stock for the current year shall have been paid or the corporation shall have

declared the same and set apart from its surplus or net profits a sum sufficient for the payment thereof, the Board of Directors may declare dividends on the Common Stock, payable then or thereafter out of any remaining surplus or net profits.

The capital stock of the corporation may be increased in the manner provided by law with the consent of the holders of seventy (70%) per cent. of the capital stock given at a meeting called for that purpose. Before any stock issued under authority of this section is otherwise offered for sale it shall first be offered to the stockholders of the corporation as follows: holders of Preferred Stock, Class A Preferred Stock and Class B Preferred Stock shall have the right to take at par in proportion to their holdings all such additional Preferred Stock, any increase in Class A Preferred Stock shall be offered at the issue price to the holders of Class A Preferred Stock and to the holders of Class B Preferred Stock in proportion to their holdings; any increase in Class B Preferred Stock shall be offered at the issue price to the holders of Class A Preferred Stock and to the holders of Class B Preferred Stock in proportion to their holdings. No holder of any class of stock shall be entitled as a matter of right to be offered any increase of Common Stock.

EXHIBIT B

W. R. GRACE & CO. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

December 31, 1953

ASSETS

CURRENT ASSETS:		
Cash:		
U. S. dollars—unrestricted	$ 26,851,947	
U. S. dollars deposited with banks in the United States as security for loans payable in foreign currencies	2,110,000	
	$ 28,961,347	
Foreign currencies	2,982,424	$ 31,944,371
Bankers acceptances—U. S. banks, at cost		80,561
U. S. government securities, at lower of cost or market, (including $1,000,000 deposited as collateral with Grace National Bank of New York, an unconsolidated subsidiary, as required by the Banking Act of 1933)		31,191,591
Marketable stocks and bonds, at cost which is approximately market value		5,256,570
Notes and accounts receivable:		
Trade, less reserves of $3,185,506	$ 34,100,111	
U. S. Maritime Administration—Accrued operating-differential subsidy—Note 4	2,568,063	
Other, less reserves of $311,501	2,149,982	
Directors and officers	69,103	38,887,259
Inventories, at lower of cost or market—Note 5		52,226,067
Stores and supplies, at cost or less		6,718,068
Prepaid expenses		2,903,747
Total current assets		$169,118,234
SPECIAL FUNDS AND DEPOSITS—Note 6		13,811,555
NOTES AND ACCOUNTS RECEIVABLE DUE AFTER ONE YEAR		3,090,512
INVESTMENTS:		
Investments in subsidiary companies not consolidated and fifty-percent owned companies, at cost—Note 14		5,705,737
Indebtedness of subsidiary company not consolidated and fifty-percent owned company		1,882,535
Miscellaneous investments, at cost—Note 7	$ 8,133,300	
Less—reserves	1,791,388	6,341,912
PROPERTY, PLANT AND EQUIPMENT, at cost—Note 8	$182,226,172	
Less—reserves for depreciation, depletion and amortization	80,294,799	101,931,373
OTHER ASSETS		1,192,386
GOODWILL, less amortization of $908,718		1,031,455
		$324,105,719

(See notes to Consolidated Balance Sheet)

W. R. GRACE & CO. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

December 31, 1953

LIABILITIES

CURRENT LIABILITIES:		
Acceptances under letters of credit, mainly against merchandise imports into the United States		$ 8,845,035
Loans payable in U. S. dollars		1,225,740
Loans payable in foreign currencies		10,358,976
Accounts payable		28,290,897
Accrued liabilities:		
U. S. and foreign taxes on income—Note 9	$ 10,532,245	
Extra compensation	1,650,616	
Other accrued liabilities	1,806,728	13,989,589
Property damage, cargo and injury claims		2,762,285
Payable to fifty-percent owned company		458,162
Long term notes payable due within one year—Note 10		1,978,125
Total current liabilities		$ 67,908,809
DEFERRED CREDITS (principally excess of unterminated voyage revenue over expense)		2,354,333
LONG TERM NOTES PAYABLE—Note 10		57,525,395
MANAGERS' DEFERRED COMPENSATION		2,528,943
OPERATING RESERVES (principally for employee severance payments required under foreign social laws)		4,523,948
EQUITY OF MINORITY STOCKHOLDERS IN CONSOLIDATED SUBSIDIARY COMPANIES:		
Capital stock	$ 15,755,952	
Surplus (including paid-in surplus of $6,841,959)	14,218,425	29,974,377
		$164,815,805
CAPITAL STOCK—Note 11:		
Authorized by charter—$100,000,000		
Issued and outstanding:		
6% cumulative preferred—40,000 shares of $100 par value	$ 4,000,000	
8% cumulative preferred—Class A—50,000 shares of $100 par value	5,000,000	
8% noncumulative preferred—Class B—40,000 shares of $100 par value	4,000,000	
Common—2,769,982 shares without par value—Note 11	27,699,820	40,699,820
CAPITAL SURPLUS—Note 12		4,839,690
EARNED SURPLUS, per accompanying statement—Note 13:		
Surplus reserves	$ 7,748,885	
Appropriated surplus	41,301,367	
Unappropriated surplus	64,700,152	113,750,404
COMMITMENTS AND CONTINGENT LIABILITIES—Note 15		
		$324,105,719

(See notes to Consolidated Balance Sheet)

W. R. GRACE & CO. AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED BALANCE SHEET

(1) Principles of Consolidation

The consolidated financial statements include the accounts of W. R. Grace & Co. and all majority-owned domestic and foreign subsidiary companies, other than Grace National Bank of New York, Grace Staff Corporation, and Cia. de Materiales de Construccion, a minor foreign subsidiary.

The accounts of Grace National Bank of New York, of which 79.3% of the outstanding capital stock was owned by the Company as at December 31, 1953 were not included in the consolidation because of the nature of its operations.

The assets of Grace Staff Corporation (a wholly-owned subsidiary) as at December 31, 1953 consisted principally of 135,466 shares of common (held primarily for sale to certain officers and employees), 1,268 shares of Class A preferred and 2,049 shares of Class B preferred stock of W. R. Grace & Co. and $154,177 receivable from officers and employees of W. R. Grace & Co. and subsidiary and affiliated companies secured by common stock of W. R. Grace & Co.

During October 1953 the Company acquired the entire business and substantially all of the assets of Thurston Chemical Company in return for 90,774 shares of common stock of the Company. Provision was also made for assumption by the Company of most of Thurston's liabilities and obligations. The net assets so acquired approximate 0.9% of the consolidated net assets at December 31, 1953. Operations of the Thurston division of the Company from October 16 to the end of the year—a seasonally slow period in the fertilizer field—resulted in a loss.

The Company increased its investment in The Davison Chemical Corporation during the last half of 1953 and at December 31, owned 63.3% and 19.6% of the corporation's outstanding common and preferred stock respectively. The accounts of The Davison Chemical Corporation are included in the consolidated balance sheet at December 31, 1953. The consolidated income statement includes the results of this company's operations for the period September 14 to December 27, 1953. After deducting minority interest approximately 14.4% of the consolidated net assets at December 31, 1953 and approximately 1.8% of the consolidated net income for the year 1953 relate to this subsidiary.

In preparing the consolidated financial statements, investments in and indebtedness of subsidiaries as well as sales, operating revenues and expenses, representing intercompany transactions between the companies included in the consolidation, were eliminated. At December 31, 1953 intercompany profits in inventories were eliminated to the extent that it was practicable to determine the amount.

(2) Consolidated Subsidiaries

Investments in subsidiaries are carried at cost. Reserves are provided, when required, to cover impairment resulting from operating losses of the subsidiary companies. In accordance with the Company's usual practice, indebtedness of or to affiliates has not been included in current assets or current liabilities. It is recognized that an indeterminate portion may prove to be current. For purposes of calculation of certain ratios under the loan agreement (see Note 13) dated August 28, 1952, as amended, indebtedness of the Company to consolidated subsidiaries carried in open account is not considered either as a current liability or as funded indebtedness.

The Company's equity in the net assets of its consolidated subsidiary companies as shown by their financial statements at December 31, 1953 was $96,070,951 greater than the carrying value of its investments. In consolidation this amount has been credited to capital and earned surplus as follows:

Capital surplus (see Note 12)		$ 2,427,776
Earned surplus (undistributed earnings since acquisition):		
Surplus reserves	$ 5,998,885	
Appropriated	41,301,367	
Unappropriated	46,342,923	93,643,173
		$96,070,951

The surplus balances of foreign companies included in the consolidation are subject to such exchange restrictions as may be imposed by regulatory bodies of the countries in which the companies are carrying on operations.

As stated in Note 9, no provision has been made for foreign dividend taxes or U. S. taxes, if any, which may become payable upon future payment of dividends by foreign subsidiary companies included in the consolidation.

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(2) Consolidated Subsidiaries (Cont.)

An approximate allocation of consolidated net assets and net current assets as at December 31, 1953 follows:

	Net Assets	*Net Current Assets*
Bolivia	$ 500 000	$ 400 000
Central America	2.500.000	2.500.000
Chile	9 000.000	4 200.000
Colombia	10.700.000	7.900.000
Peru	14.600.000	7.900.000
Miscellaneous foreign	500.000	100.000
Grace Line Inc.	39.500.000	7.100.000
U. S. exports and imports U. S. Commercial port operations and financial	19.100.000	39.700.000
U. S. manufacturing and miscellaneous industrial	43.000.000	31.400.000
	$159.300 000	$101.200.000

(3) Basis of Conversion of Foreign Currency Accounts

The accounts of consolidated foreign subsidiaries and the foreign (Peruvian) branch of the Company were converted on the following basis:

Net current assets and operating reserves were converted at appropriate year-end rates except that imported stocks were valued at approximate acquisition cost in countries having free exchange.

Fixed assets and investments were converted at rates in effect at dates the assets were acquired.

Profit and loss accounts, except depreciation, were converted at computed exchange rates based on:

1—The rates at which profits, to the extent remitted, were realized in U. S. dollars.

2—The rates in effect at the date of reinvestment of local currency funds in fixed assets or in capital stocks of foreign corporations.

3—Appropriate year-end rates for converting any remaining profit.

Depreciation has been charged to income at amounts based on the dollar cost of the property, plant and equipment.

All realized profits or losses in foreign exchange transactions have been recognized in the determination of the consolidated net income for the year. In addition, provision has been made for the unrealized exchange differential arising in conversion of local currencies for purposes of consolidation.

(4) Operating-Differential Subsidy

Since December 31, 1937 Grace Line Inc., a wholly-owned subsidiary, has conducted certain of its operations under the terms of an operating-differential subsidy agreement with the U. S. Maritime Commission and its successor, the Federal Maritime Board, as provided by the Merchant Marine Act of 1936, as amended. Effective October 1, 1952 the agreement was amended to include the company's Caribbean route so that on voyages commencing since that date all owned vessels have been operating under the subsidy agreement.

The agreement provides that at the end of any ten-year period during which an operating-differential subsidy has been paid, or when prior to the end of any such ten-year period the contract shall be terminated, one-half of all profits from subsidized operations in excess of 10% per annum of the capital necessarily employed shall be recaptured by the government, but the amount so recaptured shall not exceed the amount of operating-differential subsidy received during that period.

The accounts relative to the determination of operating-differential subsidy, net profits subject to recapture, capital necessarily employed in subsidized operations, and certain other matters are subject to audit by the Maritime Administration before final settlement. Examinations of subsidized operations for the years prior to 1942 have been substantially completed by the Maritime Administration. Because of the war, no subsidy payments were received for the period June 16, 1942 to December 31, 1946.

Subsidy rates for the years 1947 and 1948 as incorporated in the operating-differential subsidy agreement were tentative in that they were subject to verification by the Federal Maritime Board. Final rates for such years have been determined in respect to all but a few items. Accruals for these years have been on the basis of the final rates where determined, otherwise on the basis of the tentative rates. Effective January 1, 1949, the company has requested increased

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(4) Operating-Differential Subsidy (Cont.)

rates and also rates on certain additional items and has accrued subsidy on this basis. If the subsidy for the years 1949 through 1953 had been accrued on the basis of the final rates for those categories in which the Federal Maritime Board has now determined final rates for 1947 through 1951, or the tentative contract rates for those categories in which final rates have not been determined, net profit after income taxes would have been decreased by approximately $250,000 for 1953 and an aggregate of $1,000,000 for the years 1949 through 1952. However, it is believed that the subsidy for the period as a whole will be allowed substantially as accrued when the final rates for all years have been determined.

Accrued operating-differential subsidy receivable recorded on the books of Grace Line Inc. in the amount of $7,068,063 has been reduced in the preparation of the consolidated balance sheet by an amount of $4,500,000 representing an estimate of the amount which is required to be deposited in the reserve funds when received (See Note 6).

(5) Inventories, Cost of Goods Sold and Operating Expenses

The amount of the inventories included in the December 31, 1953 balance sheet is summarized by major classes hereunder:

Raw materials	$ 7,745,141
Process and packaging materials	1,387,700
Goods in process	4,606,157
Finished goods	13,356,986
Minerals	1,603,822
General merchandise and produce	11,656,158
Goods in transit	7,039,112
Advances to suppliers	2,830,991
	$52,226,067

Inventories are stated at the lower of cost or market. Market, as applied to raw materials, process and packaging materials, and goods in transit, is based on replacement cost; for other inventory classifications, market is based on net realizable value. Due to the diversified nature of the companies' operations, several bases of determining cost are used, including first in-first out, average, and specific cost.

(6) Special Funds and Deposits

Special funds and deposits at December 31, 1953 comprise the following amounts:

Reserve funds established under the Merchant Marine Act of 1936, as amended:

Capital and special reserve funds:			
Cash			$ 1,227,940
U. S. Government securities			25,939,873
			$27,167,813
Estimated deposits to be made in the special reserve fund upon collection of accrued operating-differential subsidy (see Note 4)			4,500,000
			$31,667,813
Contingent subsidy receivable (to be deposited if collected)		$9,085,491	
Less—Recapture payable applicable thereto		9,085,491	—
			$31,667,813
Other special and guaranty deposits:			
Cash		$ 154,044	
Securities:			
U. S. Government	$1,595,703		
Other	393,995	1,989,698	2,143,742
Total			$33,811,555

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(6) Special Funds and Deposits (Cont.)

The capital and special reserve funds (amounting to $20,928,896 and $6,238,917 respectively) are applicable to Grace Line Inc. (a wholly-owned subsidiary) and were established as required by the Merchant Marine Act of 1936, as amended. This Act and the operating-differential subsidy agreement require deposits in prescribed reserve funds of (a) profits from subsidized operations in excess of 10% of capital necessarily employed, (b) amounts equal to depreciation charges, to the extent earned, on owned subsidized vessels and (c) proceeds from insurance, indemnities or sale of subsidized vessels. Deposits as in (b) and (c) are also required with respect to unsubsidized vessels to the extent that the purchase of such vessels was made with amounts withdrawn from the reserve funds. To the extent that the Maritime Administration withholds estimated recapture from subsidy payments, that portion withheld is not required to be deposited in the funds until received; however, the company is required to deposit its portion of such profits unless permission is received to postpone such deposits. With the prior approval of the Maritime Administration, Grace Line Inc. may deposit additional amounts in the capital reserve fund.

Contingent subsidy receivable of $9,085,491 represents the portion of subsidy accrued since January 1, 1948 (the beginning of the current ten-year recapture period) equivalent to interim calculations of recapture payable since that date and is withheld from payment to the company.

The reserve funds may be used to purchase, construct or reconstruct vessels, to pay the principal of mortgage notes on vessels, to pay to the Administration any profits subject to recapture under the subsidy agreement, and under specified conditions may be transferred to the general funds of Grace Line Inc.

Of the total shown for securities under "Other Special and Guaranty Deposits," $1,880,813 represents securities pledged by Grace Line Inc. and Huron Stevedoring Corporation (consolidated subsidiaries) in connection with subsidy agreements, self-insurance privileges, and similar matters relative to the steamship business.

(7) Miscellaneous Investments

These investments consist chiefly of securities of foreign enterprises which, in the main, are not readily marketable; they are carried at cost and are reserved for, when required, to the extent of the impairment indicated by the financial statements of the companies.

(8) Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 1953 follows:

Land	$ 12,579,497
Buildings	25,373,032
Advertising structures	8,157,007
Vessels and marine property	45,906,681
Machinery and equipment	53,972,174
Employees and workers houses	3,238,708
Automotive equipment and rolling stock	5,762,710
Furniture and fixtures	3,981,029
Livestock, etc.	676,574
Projects under construction	22,578,760
	$182,226,172

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(8) Property, Plant and Equipment (Cont.)

Depreciation of property, plant and equipment is provided generally by use of the straight-line method based on the estimated useful lives of the assets. A portion of the cost of emergency facilities is being amortized over a period of 60 months in accordance with privileges granted by covering certificates of necessity held by The Davison Chemical Corporation and the Thurston division of the Company. For 1953 the accelerated amortization did not result in increasing materially the total provisions over those which would have been made by use of the straight-line method. 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 year ended December 31, 1953 were as follows:

Land	1.4%
Buildings	5.1
Advertising structures	9.0
Vessels and marine property	5.0
Machinery and equipment	7.1
Employees and workers houses	5.0
Automotive equipment and rolling stock	13.3
Furniture and fixtures	9.0
Livestock, etc.	4.0

Expenditures for maintenance, repairs, renewals and betterments which do not materially prolong the useful life of the asset and betterments of a minor nature, are charged to costs and expenses. The cost of property (other than advertising structures) retired or sold, together with the related reserve for depreciation, is cleared from the books, and any profit or loss, after taking into consideration proceeds from sale, is transferred to income account. Upon dismantlement of advertising structures, the value of salvageable materials is transferred to stores and supplies and the remaining cost of the dismantled structures is charged against the reserve for depreciation of advertising structures. Depletion of mineral deposits is provided for on the basis of per ton cost of estimated mineable phosphate rock.

(9) U. S. and Foreign Taxes on Income

Examinations of the U. S. consolidated income tax returns of the Company and its includible domestic subsidiaries by the Internal Revenue Service have not been completed for 1946 and subsequent years. In addition, examinations of tax returns in many of the foreign countries in which the Company and its subsidiary companies do business have not been completed for recent years. It is believed, however, that any additional assessments that may be levied as a result of tax audits now in progress are adequately reserved for at December 31, 1953.

No reserve has been provided for foreign dividend taxes or U. S. taxes, if any, which may become payable upon future payment of dividends by foreign subsidiary companies included in the consolidation. Such U. S. taxes would be reduced by foreign taxes paid or deemed to have been paid with respect to such dividends.

Profits deposited in the reserve funds by Grace Line Inc. (see Note 6) are not subject to federal income tax in the year earned. Profits withdrawn from the reserve funds and paid into general funds are required to be included in taxable income of the year of withdrawal. No provision has been made for such taxes since the amounts, if any, are not presently determinable.

The federal income tax returns of The Davison Chemical Corporation for the year ended June 30, 1951 and subsequent have not been examined by the Internal Revenue Service. Based on results of operations to March 28, 1954 and estimated results for the remainder of the fiscal year ending June 30, 1954, the corporation is not expected to be subject to excess profits tax for that year. A claim has been filed for refund of approximately $700,000 of federal income taxes paid for the years 1944 and 1945 as a result of a loss carry-back arising from a receivable that became worthless in 1946, which loss was provided for in the accounts of prior years. The claim is not reflected in the accounts pending the outcome of a review thereof now being made by the Treasury Department.

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(10) Long Term Notes Payable

A summary of long term notes outstanding at December 31, 1953 follows:

W. R. Grace & Co. (Conn.)	
3¼% notes payable to insurance companies—due from 1962 to 1982	$32,771,000
3½% notes payable to banks—due from 1954 to 1958 (The first installment of $200,000 payable July 1, 1954 has been included in current liabilities)	800,000
The Davison Chemical Corporation	
3.95% notes payable to insurance company—maturing May 1, 1967 $1,500,000 payable annually from 1954 to 1958 and $1,000,000 annually thereafter to 1966 (The first installment of $1,500,000 payable August 1, 1954 has been included in current liabilities)	17,800,000
3% purchase money obligations dated November 3, 1951—payable in annual installments of $33,125 (The amount of $33,125 due November 8, 1954 has been included in current liabilities)	265,625
Grace & Co. (Pacific Coast)—formerly W. R. Grace & Co. (W. Va.)	
4% notes payable to bank—due from 1954 to 1962 (Installment of $200,000 payable December 1, 1954 has been included in current liabilities)	1,600,000
4½% notes payable to insurance company—due from 1963 to 1972	2,000,000
Grace Line Inc.	
3½% mortgage notes payable to the U. S. Maritime Administration—due from 1954 to 1963 (payable from special funds and deposits)	1,938,770
Foster and Kleiser Company	
3½% notes payable to insurance company—payable in annual installments of $75,000 (The balance of the installment payable in 1954—$25,000—has been included in current liabilities)	350,000
	$57,525,395

With respect to the above, the aggregate amounts maturing during the five years subsequent to December 31, 1953 are as follows:

1954	$2,015,835	($37,710 payable from special funds and deposits)
1955	2,101,267	(The excess in each year over $2,028,125 is payable from special funds and deposits)
1956	2,113,704	
1957	2,200,573	
1958	2,289,168	

(11) Capital Stock

At a special stockholders' meeting held on September 16, 1953 the authorized capital stock of W. R. Grace & Co. was increased from $60,000,000 to $100,000,000 and the Company was permitted to merge other corporations into itself. It was also voted that the Company may issue up to and including 600,000 additional shares of common stock in exchange for assets of other corporations, or of partnerships or individuals or stock of other corporations. At the same meeting a plan was approved under which stock options may be granted to key executive employees of the Company or a subsidiary to purchase an aggregate of not more than 200,000 shares of the Company's common stock. The option price is to be at least 95% of the fair market value on the date of the granting of the option. The price is payable in full in cash at the time the option is exercised.

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(11) Capital Stock (Cont.)

On October 20, 1953 the Company granted options to certain directors and officers to purchase a total of 133,300 shares of its common stock. The options may be exercised at varying times between April 21, 1955 and December 31, 1963. The exercise price is $24.75 as against $25.9375, the fair market value on the date the options were granted. The total values involved are $3,836,250 and $4,020,312 respectively. No charges are reflected in the income statements in respect to these arrangements.

At December 31, 1953, 123,705 shares of The Davison Chemical Corporation 4.60% preferred stock were outstanding—24,280 shares being held by W. R. Grace & Co. The shares may be converted prior to July 1, 1962, unless previously redeemed, into common shares of the corporation on a basis of 1.33 shares of common stock for each share of preferred stock with a cash adjustment in lieu of fractional shares. The shares are redeemable to May 31, 1954 at $52.30 per share, at lesser rates of premium to May 31, 1962, and par ($50.00 per share) thereafter.

The Davison Chemical Corporation has reserved 167,002 shares of its common stock for conversion of the preferred shares. Additionally, at December 31, 1953, the corporation has reserved 42,623 shares of its common stock for issuance to its officers and executive and managerial employees under an incentive stock option plan adopted in 1952. Options have been granted for 24,425 shares in accordance with the plan at a price of $34.32 per share or a total of $838,266 which price was 95% of the closing market value ($36.125 per share or $882,353) of the stock the day previous in accordance with the terms of the stock option plan. During February 1954 one grant for 4,000 shares was exercised.

The Grace Chemical Company has granted its president, Mr. William P. Gage, the option of purchasing prior to June 30, 1959 up to 2,500 shares of its common stock at a price of $100 per share.

In the event the proposed merger with The Davison Chemical Corporation is effected, an indeterminate number of shares of the Company's unissued common stock will be issued.

(12) Capital Surplus

Capital surplus is composed of—

Excess of equity in net assets of consolidated companies acquired over cost	$2,427,776
Capital received in excess of stated value of common stock issued	2,411,914
	$4,839,690

(13) Earned Surplus

Under the loan agreement with four insurance companies the Company is required, among other things, to maintain certain minimum amounts of net current assets, as well as stipulated ratios of current assets to current liabilities. Also certain limitations are imposed on the availability of surplus for purposes of dividend payments on the common stock (other than stock dividends) and for acquisition or redemption of any class of its capital stock. Under the terms of this agreement, at December 31, 1953 amounts in excess of approximately $6,500,000 of the Company's earned surplus and of approximately $12,300,000 of the consolidated earned surplus are considered restricted as to payments of dividends. Under other loan agreements entered into by Grace & Co. (Pacific Coast), Foster and Kleiser Company and The Davison Chemical Corporation certain limitations are in effect with respect to the availability of earned surplus for payment of dividends by those subsidiaries. Of the earned surplus of these subsidiaries included in the consolidated earned surplus, it is estimated that approximately $700,000 of such earned surplus is restricted as to the payment of dividends to the parent company.

(14) Equity in Net Assets of Unconsolidated Subsidiaries and Fifty-percent Owned Companies

The total equity ($15,461,500) in the net assets of its unconsolidated subsidiaries (Grace National Bank of New York and Grace Staff Corporation) and fifty-percent owned companies (Gulf and South American Steamship Co. Inc. and Pan American-Grace Airways, Inc.) as shown by the financial statements of these companies as at December 31, 1953 exceeded the cost of the investments in these companies by $9,753,700.

(15) Commitments and Contingent Liabilities

On February 1, 1952 the Company loaned $2,000,000 to the Dewey and Almy Chemical Company evidenced by its five year convertible 3½% note due February 1, 1957. The note is convertible, at the option of either party, into common stock of the borrower. Exercise of such option would result in ownership by the Company of about 10 percent of the outstanding stock of Dewey and Almy Chemical Company.

On August 28, 1952 the Company entered into agreements (see Note 13) with four insurance companies to borrow in four installments a total of $35,000,000. Of this amount $32,771,000 was borrowed to December 31, 1953. The

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(15) Commitments and Contingent Liabilities (Cont.)

balance of $2,229,000 was borrowed on February 1, 1954. Interest of 3½% per annum is payable during the life of the loan. Commencing July 1, 1962 the loans are repayable in annual instalments of $1,560,000 up to and including July 1, 1981 with the balance of $1,400,000 to be paid on July 1, 1982.

Grace Chemical Company, a wholly-owned subsidiary, has a loan agreement with five banks under which it may borrow all or part of $10,000,000 before October 1, 1954. The agreement provides that subject to certain additional conditions the banks will loan a supplemental amount of $988,927. Notes for amounts so borrowed will be repayable in sixteen semi-annual instalments commencing not later than April 1, 1955 and will bear interest at the rate of 4% per annum. A commitment fee of ½ of 1% per annum is payable on any unused amounts to October 1, 1954.

Grace Corporation (a wholly-owned subsidiary) entered into a contract in 1953 to purchase the Cotton Exchange Building (located at 3 Hanover Square, New York). Title was acquired on February 1, 1954 at which time the Corporation received a mortgage loan from the Metropolitan Life Insurance Co. of $3,100,000 secured by the building so purchased and the building located at 7 Hanover Square, New York. The loan bears interest at the rate of 4½% per annum and is repayable over a period of 22 years. Concurrently W. R. Grace & Co. has leased both buildings from Grace Corporation for 22 years at an annual rental of $900,000.

W. R. Grace & Co. has organized a Brazilian company, Fongra Produtos Quimicos, S. A., in furtherance of its plans to establish a chemical industry in Brazil. Negotiations are being conducted whereby W. R. Grace & Co. would enter into a contract with others who will become stockholders of Fongra. It is anticipated that under this contract, which will take the place of a former contract no longer in effect, the Company will own approximately 40% of the capital of Fongra and that the Company's total investment will approximate $1,500,000.

On January 11, 1954, the United States of America instituted a civil action against the Company, Pan American World Airways, Inc. and Pan American-Grace Airways, Inc., alleging violations of the Sherman Act, asking that the Company and Pan American World Airways, Inc., each of which owns 50% of the stock of Pan American-Grace Airways, Inc., be ordered to divest themselves of their stockholdings, and also seeking an injunction against monopolization or restraint of certain trade and commerce. The complaint does not seek monetary damages, and the Company will deny the material allegations of the complaint.

Customers notes receivable of subsidiary companies, amounting to $1,724,700, have been discounted and are excluded from the consolidated balance sheet.

Letters of credit in favor of suppliers amounting to approximately $4,200,000 were outstanding as at December 31, 1953.

Foster and Kleiser Company, a subsidiary engaged in the outdoor advertising business, is the lessee under 21,583 conditional leaseholds for locations of advertising structures with a minimum annual rental of $2,231,797.

There are various other claims, commitments and contingent liabilities arising in the normal course of business, but it is believed they do not substantially affect the position as reflected in the financial statements at December 31, 1953.

(16) Pension and Retirement Plans

The Company and all its domestic operating subsidiaries, except The Davison Chemical Corporation, maintain a voluntary pension plan which is available to the officers and to all of the regular full time office employees of the participating companies upon completion of five years' service and attainment of age thirty. It is a fully funded pension trust administered by the Grace National Bank of New York. A valuation of the plan is made at the end of each fiscal year by an independent actuary and the employer's rate of contribution for the succeeding year determined. The cost to the participating companies for the year 1953 was approximately $413,000 and the cost to the officers and employees ranged from 2% to 4% of their annual salaries.

The Thurston division of W. R. Grace & Co. has been included in the pension plan. A revised pension plan for Grace Chemical Company appropriate to the chemical industry has been decided upon but has not yet been instituted.

Effective January 1, 1952 The Davison Chemical Corporation adopted a new retirement plan for the benefit of its employees but reserved the right to modify, suspend or discontinue it at any time. The unfunded balance of the cost for past service at December 27, 1953 is actuarially estimated to be $3,627,652. The cost for the calendar year 1953, (based upon number of employees, payroll and other factors) assuming funding the past service obligation over a 20-year period from the date of adoption of the plan, is actuarially estimated to be $252,327 for past service and $274,321

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

(16) Pension and Retirement Plans (Cont.)

for current service. The total contributions made by the corporation covering both classes of service and charged in the accounts for the year ended December 27, 1953, aggregated approximately $508,000.

The Davison Chemical Corporation entered into an agreement with Mr. Chester F. Hockley, Chairman of the Board of Directors, effective as of December 27, 1951, under which Mr. Hockley may retire at any time after June 30, 1954 by giving written notice thereof to the Board of Directors of the corporation, and further that Mr. Hockley may retire at any time prior to June 30, 1954 provided such retirement is approved by the Board of Directors of the corporation. The corporation agrees to pay Mr. Hockley, from and after his retirement date to the date of his death, a sum at the rate of $35,000 per annum, payable in equal monthly installments. During the retirement period, Mr. Hockley agrees to serve the corporation in an advisory capacity and to make himself available to it at all reasonable times for advice and consultation. No benefits payable under any Employees' Retirement Plan of the corporation shall be taken into account in computing the compensation to be paid to Mr. Hockley.

The laws of several foreign countries provide for retirement pensions for employees. The cost of these plans has not been actuarially determined, and it is the present policy of the companies to absorb such pension payments in current expenses.

EXHIBIT C

DEWEY AND ALMY CHEMICAL COMPANY AND WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 1953

ASSETS

Current:		
Cash		$ 1,364,964
United States Government securities, at cost which approximates current market value		3,058,090
Accounts receivable:		
Trade	$ 2,780,651	
Other	327,981	
	$ 3,108,632	
Less allowance for doubtful accounts	28,624	3,080,008
Inventories (note B):		
Raw materials and supplies	$ 3,777,555	
Work in process and semi-finished goods	1,060,058	
Finished goods	2,248,263	7,085,876
Prepaid expenses and other current items		156,167
Total current assets		$16,745,135
Cash surrender value of life insurance policies		251,973
Deferred items (including $30,359 unamortized long-term debt expenses—note C)		42,671
Investment securities, at cost:		
Foreign subsidiaries not wholly owned	$ 73,120	
Other	143,010	216,130
Property, plant, and equipment, at cost:		
Land and land improvements	$ 582,343	
Buildings	5,182,120	
Machinery and equipment	9,267,798	
Work orders in process	161,013	
	$15,193,274	
Less allowances for depreciation, obsolescence and amortization	6,052,561	9,140,713
Formulas and processes		1
		$26,396,593

LIABILITIES

Current:		
Foreign bank loans		$ 36,628
Prepayments due within one year on notes payable to insurance companies		147,000
Accounts payable:		
Trade	$ 1,069,796	
Withholdings from employees for taxes, savings bonds and retirement plan	108,484	
Other	75,868	1,254,148
Accrued liabilities:		
Federal, state and other taxes	$ 2,082,961	
Wages and commissions	258,779	
Interest	75,435	
Other	272,483	2,689,124
Provision for redemption of returnable containers		94,335
Total current liabilities		$ 4,221,235
Deferred income taxes		190,000
Convertible 3½% debentures, due July 1, 1976 (note D)	$ 4,245,000	
Less debentures acquired for sinking fund	585,000	
	$ 3,660,000	
Notes payable, 4%, to insurance companies, due June 1, 1967 with certain annual prepayments required, less $147,000 included in current liabilities	3,206,000	
Convertible 3½% note, payable February 1, 1957 (note E)	2,000,000	8,866,000

CAPITAL

Common stock, par value $1.00 per share, authorized 1,500,000 shares; outstanding 913,898 shares (note F)	$ 913,898	
Additional paid-in capital	7,063,298	
Consolidated retained earnings since January 1, 1935 (notes G and J)	5,142,162	13,119,358
		$26,396,593

The accompanying notes are an integral part of the balance sheet.

DEWEY AND ALMY CHEMICAL COMPANY AND WHOLLY OWNED SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET

A—Principles applied in consolidation:

The accounts of all wholly owned subsidiaries are consolidated in the accompanying balance sheet. Four of the wholly owned foreign subsidiaries close their accounts yearly as of November 30 to expedite preparation of the consolidated financial statements.

No unrealized profits or losses on inter-company sales or on other charges are included in consolidated retained earnings or in inventories.

At December 31, 1953 the parent company's equity in net assets shown by the books of wholly owned subsidiaries exceeded its investment in their shares by $949,414. This difference has been accounted for in the consolidated balance sheet as follows:

Inter-company profits deducted from inventories	$ 42,009
Deducted from additional paid-in capital	(235)
Included in consolidated retained earnings since January 1, 1935	907,590
	$949,414

Translations into United States dollars of accounts of foreign subsidiaries have been made at rates approximating official rates of exchange as follows: current assets, prepaid items and current liabilities, at rates in effect at balance sheet dates; fixed assets and related provisions for depreciation, at rates in effect at the dates of acquisition; income and expenses, except depreciation expense, at rates prevailing during the respective periods.

In the consolidated balance sheet as at December 31, 1953 net current assets of foreign subsidiaries amount to $563,901 and net fixed assets of these subsidiaries amount to $319,384. Foreign exchange restrictions have had no adverse effect on transfers of funds to the parent company from the countries in which the consolidated foreign subsidiaries are operating.

B—Inventories:

Inventories of raw materials and supplies are priced at the lower of average cost or market. Inventories of work in process and finished goods are priced at standard direct costs which are determined in accordance with the company's established practice. These costs approximate actual costs of materials and direct labor plus allowances for manufacturing expenses which include no apportionment of certain indirect factory overhead expenses having no significant relation to production volume.

C—Unamortized debt expenses:

Expenses of the several issues of long-term debt are being amortized ratably over their respective lives.

D—Convertible 2¼% debentures:

Under terms of the indenture of convertible 2¼% debentures the company agrees to pay to the Trustees on or before July 1 in each year as a sinking fund for the retirement of debentures a sum (in cash or in debentures at cost not exceeding principal amount plus current redemption premium) equal to 10% of consolidated net profit for the last preceding fiscal year, with certain adjustments defined in the indenture.

Debentures are convertible at the option of the owner into the company's common stock par value $1.00, the conversion rates computed on the basis of the company's common stock outstanding at the balance sheet dates being as follows:

Period	Number of Shares per $1,000 Debenture
Prior to July 1, 1956	32.2
July 1, 1956 through June 26, 1976	23.0

Provision is made for adjusting the conversion ratios in the event that additional common stock is issued.

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

E—Convertible 3½% note payable to W. R. Grace & Co.:

Under terms of the loan agreement, after February 1, 1954 and before February 1, 1957 this note may, at the option of either the holder or the company be converted to shares of the $1.00 par value common stock in number equal to 80,000 plus 480 additional for each quarter year elapsed from February 1, 1952 to the date of conversion. In the event of liquidation or certain other conditions, this note is subordinate to all other indebtedness of the company.

F—Reservations of common stock:

At December 31, 1953, 257,450 unissued shares of common stock were reserved for issuance as follows:

117,850 for conversion of the 2¾% debentures
89,600 for conversion of the 3½% note payable
50,000 under the company's restricted stock option plan, of which options have been granted to employees on December 21, 1953 for the purchase of 41,000 shares at $19.375 per share (approximate market at date granted) for an aggregate of $794,375. These options are exercisable only after three years from December 21, 1953, except in the event of death or retirement and are not exercisable more than three months after termination of employment or more than ten years after December 21, 1953.

On July 23, 1954 additional options were granted for the purchase of 9,000 shares at $34.50 per share (approximate market at date granted) for an aggregate of $310,500. These options are exercisable only after three years from July 23, 1954, except in the event of death or retirement and are not exercisable more than three months after termination of employment or more than ten years after July 23, 1954.

G—Covenants with respect to declaration of dividends:

Under loan agreements with insurance companies, amounts applied to payment of dividends on capital stock (other than dividends payable in such stock), to purchases of capital stock and to retirement of the 3½% note are limited in the aggregate to consolidated net profit after December 31, 1951, plus $850,000. At December 31, 1953, under this provision, not more than $1,729,983 of retained earnings since January 1, 1935 was available for payment of dividends. In addition, dividends may not be paid, stock purchased, nor the 3½% note retired if such action would reduce consolidated working capital below $7,000,000 or 85% of consolidated funded debt, whichever is greater.

There are also restrictive provisions in the indenture of the convertible 2¾% debentures, but under these provisions the December 31, 1953 balance of consolidated retained earnings since January 1, 1935 was available for the payment of dividends.

H—Depreciation policy:

It is the policy of the company and of its subsidiaries to provide for depreciation and obsolescence of depreciable plant assets through periodic charges to costs or expenses computed on the basis of straight-line rates applied to the costs of the assets. The straight-line rates employed for principal classes of plant assets were as follows:

Land improvements	5 %
Buildings	2.85% to 10%
Machinery and equipment	10 % to 20%
Automotive equipment	20 % to 25%
Molds	50 %

Leasehold building improvements are amortized over the period of the lease.

The company and its subsidiaries have followed the practice of charging expenditures for maintenance and repairs to costs and expenses. The costs of any substantial improvements are charged to fixed asset accounts.

When depreciable assets are disposed of, the appropriate reserve accounts are charged with the amounts of depreciation accrued with respect to such assets; any profit or loss on sale of such properties is included in other income or other charges.

Reserves for depreciation, obsolescence and amortization include $747,302 at December 31, 1953 with respect to emergency plant facilities fully amortized in 1945.

DEWEY AND ALMY CHEMICAL COMPANY AND WHOLLY OWNED SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET—(Continued)

I—Retirement annuity plans:

In 1943 the parent company adopted a retirement annuity plan which was revised in 1948. This is a contributory plan available to employees who have three years' continuous service before reaching age 60 (age 55 if a woman). The plan provides annuities for those retiring, based on past compensation and years of service. The company reserves the right to modify, suspend or discontinue the plan at any time, but it cannot withdraw any contributions after they are made.

Annuity contracts for participating employees are purchased yearly from contributions by the company and employees. The cost of benefits with respect to past service has been paid by the company.

Consolidated subsidiaries have also adopted generally similar plans. The aggregate current service cost of these plans to the parent company and its subsidiaries was $196,027 in 1953.

J—Taxes on future distributions of earnings of foreign subsidiaries:

The amount of federal taxes on income which might be incurred as a result of dividends paid by foreign subsidiaries out of retained earnings at December 31, 1953, would not be material under existing federal tax laws.

PRESENTED TO DIRECTORS' MEETING OF 9-3-54

DEWEY AND ALMY CHEMICAL COMPANY

PLANTS
CAMBRIDGE MASS ADAMS MASS
ACTON MASS LOCKPORT N.Y.
CHICAGO ILL CEDAR RAPIDS IA
SAN LEANDRO CALIF
MONTREAL LONDON
MELBOURNE BUENOS AIRES
PARIS HAVRE

CAMBRIDGE 40 MASSACHUSETTS

CABLE ADDRESS
DAREY BOSTON

TO THE STOCKHOLDERS:

The solicitation of the enclosed proxy is made by and on behalf of the management of Dewey and Almy Chemical Company to be used at the Special Meeting of the Stockholders of Dewey and Almy Chemical Company called by the enclosed notice, to be held at 10 o'clock in the forenoon on Monday, the 25th day of October, 1954, at the office of the Corporation, 62 Whittemore Avenue, Cambridge, Massachusetts, and at any and all adjournments thereof. A stockholder executing and delivering the enclosed proxy has the power to revoke the proxy at any time before it is voted. Only stockholders of record at the close of business on September 25, 1954 are entitled to notice of and to vote at said meeting or any adjournments of it.

PURPOSE OF SPECIAL MEETING

The purpose of the Special Meeting is to consider and act upon a proposal to approve an agreement of merger and articles of consolidation which provide for the merger and consolidation of Dewey and Almy Chemical Company, a Massachusetts corporation, into W. R. Grace & Co., a Connecticut corporation, and a proposal to authorize the proper officers and directors of Dewey and Almy Chemical Company to sign and make oath to the agreement of merger and articles of consolidation and take such further action as may be necessary to make effective the merger and consolidation provided for in said agreement and articles.

The agreement of merger and articles of consolidation as agreed upon by the directors of both companies are attached to the proxy statement of W. R. Grace & Co. which is being mailed to you as soon as possible under separate cover. The proxy statement contains, in addition, financial statements of both companies and much other information of interest to shareholders. Also being mailed under separate cover for your information is a copy of the Annual Report of W. R. Grace & Co. for 1953. Your attention is called to the fact that the Annual Report of W. R. Grace & Co. for 1953 does not reflect the issuance in 1954 of approximately 438,240 shares of W. R. Grace & Co.'s Common Stock as a result of the merger of W. R. Grace & Co. and The Davison Chemical Corporation which was consummated in May 1954.

If the merger and consolidation are approved by the requisite number of the shares of each of the Constituent Corporations (i.e., W. R. Grace & Co. and Dewey and Almy Chemical Company), then when the merger and consolidation become effective, stockholders of Dewey and Almy Chemical Company will receive one share of W. R. Grace & Co. Common Stock for each share of Dewey and Almy Chemical Company Common Stock they own, W. R. Grace & Co. will become the Resulting Corporation, Dewey and Almy Chemical Company will cease to have any separate existence and the Resulting Corporation will succeed to all the rights, privileges and property belonging to Dewey and Almy Chemical Company and be subject to all the debts, liabilities and duties of Dewey and Almy Chemical Company.

RANGE OF SECURITY PRICES

The high and low sales prices of Grace Common Stock on the New York Stock Exchange for each of the eight consecutive quarterly periods, the last of which ended June 30, 1954, and the range of prices from July 1, 1954, to August 31, 1954, and the range of bid and asked over-the-counter prices furnished by the National Quotation Bureau for Dewey and Almy Common Stock for each of the same periods, were as follows:

PERIOD ENDED	GRACE SALES PRICES — COMMON		DEWEY AND ALMY SALES PRICES — COMMON	
	High	Low	High	Low
Sept. 30, 1952	31½*	27*	20	13½
Dec. 31, 1952	33½*	26*	18¼	14½
March 31, 1953	33⅛** 33⅛***	29*** 30¼***	18½	14½
June 30, 1953	30½	26½	18	14½
Sept. 30, 1953	27½	24¼	18	14
Dec. 31, 1953	28¼	25¼	20¼	16½
March 31, 1954	30⅞	27¼	22¼	18½
June 30, 1954	37¼	29⅛	27½	20½
July 1 to August 31, 1954	42¼	36½	41	26¼

*Grace stock not listed during this period—prices are range of bid and asked over-the-counter prices furnished by National Quotation Bureau.

**Range of bid and asked prices before listing on N. Y. Stock Exchange on February 27, 1953.

***Range of sale prices after listing on N. Y. Stock Exchange.

W. R. Grace & Co.'s Common Stock is listed on the New York Stock Exchange. For further information in regard to W. R. Grace & Co., it is suggested you read its proxy statement and its annual report, both of which are being mailed to you under separate cover.

DECEMBER DIVIDEND

W. R. Grace & Co. normally declares a quarterly dividend payable December 15; therefore, Dewey and Almy shareholders who become shareholders of W. R. Grace & Co. will receive their December dividend from Grace.

VOTE REQUIRED FOR MERGER

If the merger is authorized (a) at the meeting of the stockholders of Dewey and Almy Chemical Company by the votes of the holders of at least two-thirds of the outstanding shares of Common Stock, and (b) at the meeting of the stockholders of W. R. Grace & Co. by the votes of the holders of at least two-thirds of the outstanding shares of each class of W. R. Grace & Co. stock, i.e., Preferred, Class A Preferred, Class B Preferred and Common, then, subject to the powers of the Boards of Directors of the Constituent Corporations to abandon the agreement of merger and articles of consolidation, as set forth therein, the merger will become effective upon the filing of the agreement of merger and articles of consolidation with the Secretary of State of Connecticut and with the Secretary of the Commonwealth of Massachusetts.

ABANDONMENT OF AGREEMENT OF MERGER

The agreement of merger and articles of consolidation provide that they may be terminated and abandoned at any time before the effective date of the merger:

(a) by action of a majority of the Boards of Directors of both W. R. Grace & Co. and Dewey and Almy Chemical Company, or

(b) by the Board of Directors of W. R. Grace & Co. (i) if the stockholders of W. R. Grace & Co. do not vote the increase in Grace Common Stock necessary to provide Grace Common Stock for exchange for Dewey and Almy Common Stock, (ii) if the stockholders of W. R. Grace

& Co. do not vote to change the no par Common Stock of Grace into a $1.00 par value Common Stock of Grace, or [illegible] if the merger is deemed impracticable by Grace's Board of Directors by reason of the claims which may be made by stockholders of Grace or by stockholders of Dewey and Almy or by stockholders of both of such corporations for payment to them in cash of the value of their stock. It is further provided that the merger shall not be deemed impracticable unless the amount as estimated by the Board of Directors of W. R. Grace & Co. which might be payable to all such stockholders would exceed four million dollars.

FEDERAL TAX STATUS OF THE MERGER

It is the opinion of counsel for Dewey and Almy Chemical Company that under the Internal Revenue Code now in effect neither gain nor loss for Federal Income Tax purposes would be recognized by reason of the merger with respect to Dewey and Almy Chemical Company or with respect to the holders of Common Stock of Dewey and Almy Chemical Company except in the case of stockholders who may vote against the merger and be paid in cash the value of their stock in appropriate appraisal proceedings.

RIGHTS OF DISSATISFIED STOCKHOLDERS OF DEWEY AND ALMY CHEMICAL COMPANY

Section 46E of Chapter 156 of the General Laws of Massachusetts reads:

"46E *Payment for Stock of Dissenting Stockholder* — A stockholder in any corporation which shall have duly voted to consolidate with another corporation in accordance with section forty-six B or forty-six D, who, at the meeting of stockholders, has voted against such consolidation, if entitled to vote, or, if not entitled to vote, has registered his disapproval in writing with the corporation at or before said meeting, may, within thirty days after the date on which the articles of consolidation were filed, make a written demand upon the consolidated corporation for payment for his stock. If such corporation and the stockholder cannot agree upon the value of the stock at the date of the consolidation, such value shall be ascertained and the stock paid for by and transferred to the consolidated corporation in the manner provided in section forty-six."

OPERATION OF DEWEY AND ALMY CHEMICAL COMPANY

W. R. Grace & Co. has agreed that Dewey and Almy Chemical Company will continue to operate as an autonomous unit with its headquarters at Cambridge, Massachusetts, and with no change expected in the personnel or in the policies under which they work.

OTHER MATTERS AND DISCRETION OF ATTORNEYS NAMED IN THE PROXY

The management of Dewey and Almy Chemical Company is not aware of any matters which may come before the meeting other than those hereinbefore referred to. If any other matters properly come before the meeting, and on all procedural matters at said meeting, it is the intention that the enclosed proxy shall be voted in accordance with the best judgment of the attorneys named therein or their substitutes, present and acting at the meeting.

Attention is called to the fact that as a matter of corporate procedure and as mentioned in the proxy, any or all of the matters to be acted upon at the meeting may be acted upon at the first session of said meeting or at any adjournment or adjournments thereof.

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors recommends the approval of the agreement of merger and articles of consolidation by the stockholders of Dewey and Almy Chemical Company.

For the Directors

Hugh J. Ferguson

President

Cambridge, Massachusetts
September 25, 1954

PRESENTED TO DIRECTORS' MEETING OF 9-3-54

DEWEY AND ALMY CHEMICAL COMPANY

NOTICE OF STOCKHOLDERS' SPECIAL MEETING

To the Stockholders of
DEWEY AND ALMY CHEMICAL COMPANY:

A special meeting of the stockholders of this corporation has been called by the Board of Directors and will be held at the office of the corporation, 62 Whittemore Avenue, Cambridge, Massachusetts, on Monday, October 25, 1954 at 10 o'clock in the forenoon for the following purposes:

(1) To consider and act upon a proposal (a) to approve and adopt the agreement of merger and articles of consolidation dated as of September 2, 1954, providing for the merger and consolidation of Dewey and Almy Chemical Company, a Massachusetts corporation, into W. R. Grace & Co., a Connecticut corporation, and (b) to authorize the President, Treasurer, and a majority of the Board of Directors of Dewey and Almy Chemical Company to sign and swear to the aforesaid agreement and articles, to submit or cause the same to be submitted to the Commissioner of Corporations and Taxation of the Commonwealth of Massachusetts or his successor in office for his approval, and thereafter to file or cause the same to be filed in the office of the Secretary of the Commonwealth of Massachusetts for the purpose of making the merger and consolidation effective.

(2) To consider and act upon the authorization, approval, ratification and confirmation of any and all acts and proceedings by the officers and directors in connection with the foregoing merger.

(3) To consider and act upon any matters incidental to the foregoing purposes or any of them or any other matters that may properly come before the meeting or any adjourned session thereof.

Only stockholders of record at the close of business on September 25, 1954, are entitled to notice of and to vote at this meeting or any adjournment of it.

We will appreciate the prompt execution and return of the enclosed proxy by stockholders who cannot attend the meeting in person, as the favorable votes of the holders of at least two-thirds of the outstanding shares are required to effect the action proposed to be taken at the meeting. A return envelope, to which no postage need be attached if mailed in the United States, is enclosed for your convenience.

By order of the Board of Directors

WILLIAM T. SNOW, *Clerk*

Cambridge, Massachusetts
September 25, 1954

62 WHITTEMORE AVENUE, CAMBRIDGE 40, MASS.

PROXY FOR SPECIAL MEETING OF STOCKHOLDERS, OCTOBER 25, 1954

The undersigned stockholder of Dewey and Almy Chemical Company, a Massachusetts corporation, acknowledges receipt of the notice dated September 25, 1954, of a Special Meeting of Stockholders of the Company to be held at the office of the Company, 62 Whittemore Avenue, Cambridge, Massachusetts, at 10 o'clock in the forenoon on Monday, October 25, 1954, and hereby constitutes Hugh S. Ferguson, Waldo W. Neikirk and W. T. Snow, or any one of them, the attorneys of the undersigned with full power of substitution to each, for and in the name of the undersigned, to vote at said meeting by a majority of those present and acting at the meeting upon all matters which may come before it or any adjournment, with all the powers which the undersigned would possess if personally present, hereby revoking all previous proxies.

The undersigned hereby instructs said proxies to vote

FOR ☐ AGAINST ☐ (*please check one*)

the proposal to approve and adopt the agreement of merger and articles of consolidation dated as of September 2, 1954, providing for the merger and consolidation of Dewey and Almy Chemical Company, a Massachusetts corporation, into W. R. Grace & Co., a Connecticut corporation, and to authorize the President, Treasurer, and a majority of the Board of Directors of Dewey and Almy Chemical Company to sign and swear to the aforesaid agreement and articles, to submit or cause the same to be submitted to the Commissioner of Corporations and Taxation of the Commonwealth of Massachusetts or his successor in office for his approval and thereafter to file or cause the same to be filed in the office of the Secretary of the Commonwealth of Massachusetts for the purpose of making the merger and consolidation effective.

It is understood that the undersigned's vote is to be cast in favor of the foregoing proposal if no contrary instruction is indicated in the above space, and that the undersigned reserves the right to revoke this proxy at any time before it is voted.

_____
(*Stockholder*)

_____
(*Date*)

We hope you can attend the meeting. If you cannot, we would very much appreciate your signing and returning this proxy in the envelope enclosed for your convenience.

THE FOREGOING PROXY
IS SOLICITED BY
THE MANAGEMENT.

PRESENTED TO DIRECTORS' MEETING
OF 7-23-54

DEWEY AND ALMY CHEMICAL COMPANY

PLANTS
CAMBRIDGE MASS. ADAMS MASS.
ACTON MASS. LOCKPORT N.Y.
CHICAGO ILL. CEDAR RAPIDS IA.
SAN LEANDRO CALIF.
MONTREAL LONDON
MELBOURNE BUENOS AIRES
PARIS CANNES

CAMBRIDGE 40, MASSACHUSETTS

July 23, 1954

CABLE ADDRESS
DARCY BOSTON

To the Shareholders of Dewey and Almy Chemical Company

We want to inform you immediately of a development of interest to you. It is summarized in a statement being issued to the press this afternoon, which reads as follows:

"The Directors of W. R. Grace & Co. and of Dewey and Almy Chemical Co. are informing their respective shareholders of a proposed merger, it was announced today by J. Peter Grace, Jr. and Hugh S. Ferguson, the companies' presidents. The merger would provide Dewey and Almy shareholders with one share of W. R. Grace & Co. common stock for each share of Dewey and Almy stock. Methods of accomplishing the merger are being studied by both companies so that a plan can be presented to shareholders as soon as possible for their approval.

"Mr. Grace and Mr. Ferguson stated that if the plan is consummated, Dewey and Almy will continue to operate as an autonomous unit with its headquarters at Cambridge, Massachusetts with no change expected in the personnel or in the policies under which they work."

We are intensively exploring a number of methods of accomplishing a consolidation of interests, having in mind the desirability of simplicity, speed and the avoidance of unnecessary expense. As soon as a plan is worked out, we will communicate it to you.

W. R. Grace & Co., as you probably know, is extensively engaged in the chemical business in this country, as well as being active in banking, export and import, air transportation, shipping and South American manufacturing. Its stock is listed on the New York Stock Exchange and closed on July 22 at $38-5/8 a share. We will be glad to send you a copy of its latest annual report if you wish one.

For the Directors

Hugh S. Ferguson

HSF EB

Hugh S. Ferguson
President