

W R GRACE & CO  
Form 10-Q  
November 05, 2015

Table of Contents

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

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

For the Quarterly Period Ended September 30, 2015

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

Commission File Number 1-13953

W. R. GRACE & CO.

Delaware

65-0773649

(State of Incorporation)

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

7500 Grace Drive

Columbia, Maryland 21044

(410) 531-4000

(Address and phone number of principal executive offices)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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

Class

Outstanding at November 3, 2015

Common Stock, \$0.01 par value per share

70,637,840 shares

Table of Contents

## TABLE OF CONTENTS

Part I. Financial Information

<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	<u>3</u>
	<u>Report of Independent Registered Public Accounting Firm</u>	<u>4</u>
	<u>Consolidated Statements of Operations</u>	<u>5</u>
	<u>Consolidated Statements of Comprehensive (Loss) Income</u>	<u>6</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>7</u>
	<u>Consolidated Balance Sheets</u>	<u>8</u>
	<u>Consolidated Statements of Equity</u>	<u>9</u>
	<u>Notes to Consolidated Financial Statements</u>	
1.	<u>Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies</u>	<u>10</u>
2.	<u>Inventories</u>	<u>12</u>
3.	<u>Debt</u>	<u>12</u>
4.	<u>Fair Value Measurements and Risk</u>	<u>13</u>
5.	<u>Income Taxes</u>	<u>20</u>
6.	<u>Pension Plans and Other Postretirement Benefit Plans</u>	<u>22</u>
7.	<u>Other Balance Sheet Accounts</u>	<u>24</u>
8.	<u>Commitments and Contingent Liabilities</u>	<u>24</u>
9.	<u>Restructuring Expenses, Asset Impairments and Repositioning Expenses</u>	<u>26</u>
10.	<u>Other Expense, net</u>	<u>27</u>
11.	<u>Other Comprehensive Income (Loss)</u>	<u>28</u>
12.	<u>Earnings Per Share</u>	<u>30</u>
13.	<u>Operating Segment Information</u>	<u>30</u>
14.	<u>Unconsolidated Affiliate</u>	<u>32</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>54</u>
<u>Part II.</u>	<u>Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>55</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>55</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>55</u>
	<u>Signatures</u>	<u>57</u>

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Review by Independent Registered Public Accounting Firm

With respect to the interim consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has applied limited procedures in accordance with professional standards for a review of such information. Their report on the interim consolidated financial statements, which follows, states that they did not audit and they do not express an opinion on the unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on the unaudited interim consolidated financial statements should be restricted in light of the limited nature of the review procedures applied. This report is not considered a "report" within the meaning of Sections 7 and 11 of the Securities Act of 1933, and, therefore, the independent accountants' liability under Section 11 does not extend to it.

Table of Contents

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

We have reviewed the accompanying consolidated balance sheet of W. R. Grace & Co. and its subsidiaries (the “Company”) as of September 30, 2015, and the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2015 and September 30, 2014 and the consolidated statements of cash flows and equity for the nine-month periods ended September 30, 2015 and September 30, 2014. These interim financial statements are the responsibility of the Company’s management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 25, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Baltimore, Maryland  
November 5, 2015

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

(In millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	\$790.1	\$856.4	\$2,292.8	\$2,438.9
Cost of goods sold	478.2	528.6	1,412.0	1,521.0
Gross profit	311.9	327.8	880.8	917.9
Selling, general and administrative expenses	136.3	147.7	409.4	428.5
Research and development expenses	17.4	20.5	53.2	61.3
Interest expense and related financing costs	25.3	14.7	74.9	37.0
Interest accretion on deferred payment obligations	0.2	43.7	0.6	65.5
Loss in Venezuela	60.8	1.0	60.8	1.0
Repositioning expenses	14.0	—	34.3	—
Equity in earnings of unconsolidated affiliate	(3.6)	(6.4)	(12.1)	(13.2)
Gain on termination and curtailment of postretirement plans	(4.5)	(23.7)	(4.5)	(31.6)
Chapter 11 expenses, net	1.1	1.7	4.3	10.8
Other expense, net	10.7	9.0	13.1	29.9
Total costs and expenses	257.7	208.2	634.0	589.2
Income before income taxes	54.2	119.6	246.8	328.7
Provision for income taxes	(40.1)	(44.6)	(122.4)	(66.7)
Net income	14.1	75.0	124.4	262.0
Less: Net income attributable to noncontrolling interests	(0.3)	(0.5)	(0.5)	(1.2)
Net income attributable to W. R. Grace & Co. shareholders	\$13.8	\$74.5	\$123.9	\$260.8
Earnings Per Share Attributable to W. R. Grace & Co. Shareholders				
Basic earnings per share:				
Net income attributable to W. R. Grace & Co. shareholders	\$0.19	\$1.00	\$1.71	\$3.44
Weighted average number of basic shares	72.1	74.7	72.5	75.9
Diluted earnings per share:				
Net income attributable to W. R. Grace & Co. shareholders	\$0.19	\$0.99	\$1.69	\$3.40
Weighted average number of diluted shares	72.7	75.6	73.1	76.8

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

Table of Contents

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

## Consolidated Statements of Comprehensive (Loss) Income (unaudited)

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$14.1	\$75.0	\$124.4	\$262.0
Other comprehensive (loss) income:				
Defined benefit pension and other postretirement plans, net of income taxes	(2.6	) (18.6	) (3.8	) 3.2
Currency translation adjustments	(32.8	) (12.7	) (44.3	) (7.5
(Loss) gain from hedging activities, net of income taxes	(1.4	) 0.7	(1.7	) (1.0
Other than temporary impairment of investment	—	0.8	—	0.8
Gain (loss) on securities available for sale, net of income taxes	—	0.4	—	(0.1
Total other comprehensive (loss) income attributable to noncontrolling interests	(0.6	) 0.7	0.1	0.8
Total other comprehensive loss	(37.4	) (28.7	) (49.7	) (3.8
Comprehensive (loss) income	(23.3	) 46.3	74.7	258.2
Less: comprehensive loss (income) attributable to noncontrolling interests	0.3	(1.2	) (0.6	) (2.0
Comprehensive (loss) income attributable to W. R. Grace & Co. shareholders	\$(23.0	) \$45.1	\$74.1	\$256.2

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

Table of Contents

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

## Consolidated Statements of Cash Flows (unaudited)

(In millions)	Nine Months Ended	
	September 30, 2015	2014
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 124.4	\$ 262.0
Reconciliation to net cash used for operating activities:		
Depreciation and amortization	99.5	102.3
Equity in earnings of unconsolidated affiliate	(12.1 )	(13.2 )
Dividends received from unconsolidated affiliate	11.8	11.2
Chapter 11 expenses, net	4.3	10.8
Asbestos and bankruptcy related charges, net	(8.7 )	6.8
Cash paid for Chapter 11 and asbestos	(493.8 )	(1,344.6 )
Cash paid to settle deferred payment obligation	—	(632.0 )
Provision for income taxes	122.4	66.7
Cash paid for income taxes, net of refunds	(34.2 )	(21.7 )
Excess tax benefits from stock-based compensation	—	(0.7 )
Cash paid for interest on credit arrangements	(55.7 )	(19.8 )
Defined benefit pension expense	23.9	19.5
Cash paid under defined benefit pension arrangements	(13.2 )	(94.1 )
Currency and other losses in Venezuela	72.5	1.0
Cash paid for repositioning	(18.6 )	—
Cash paid for restructuring	(12.1 )	(4.8 )
Cash paid for environmental remediation	(8.7 )	(9.7 )
Changes in assets and liabilities, excluding effect of currency translation:		
Trade accounts receivable	(35.4 )	(51.4 )
Inventories	(16.4 )	(49.9 )
Accounts payable	40.0	18.6
All other items, net	129.3	106.6
Net cash used for operating activities	(80.8 )	(1,636.4 )
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(112.4 )	(121.7 )
Transfer from restricted cash and cash equivalents	—	395.4
Other investing activities	(1.7 )	5.7
Net cash (used for) provided by investing activities	(114.1 )	279.4
<b>FINANCING ACTIVITIES</b>		
Borrowings under credit arrangements	306.3	1,114.4
Repayments under credit arrangements	(85.7 )	(750.0 )
Proceeds from issuance of bonds	—	1,000.0
Cash paid for debt financing costs	(0.4 )	(38.6 )
Cash paid for repurchases of common stock	(220.1 )	(334.4 )
Proceeds from exercise of stock options	24.9	17.6
Excess tax benefits from stock-based compensation	—	0.7
Other financing activities	—	0.2
Net cash provided by financing activities	25.0	1,009.9
Effect of currency exchange rate changes on cash and cash equivalents	(56.5 )	(9.7 )
Decrease in cash and cash equivalents	(226.4 )	(356.8 )

Edgar Filing: W R GRACE & CO - Form 10-Q

Cash and cash equivalents, beginning of period	557.5	964.8
Cash and cash equivalents, end of period	\$331.1	\$608.0

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

7

---



Table of Contents

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

## Consolidated Balance Sheets (unaudited)

(In millions, except par value and shares)	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$331.1	\$557.5
Trade accounts receivable, less allowance of \$7.8 (2014—\$5.8)	455.2	481.1
Inventories	323.1	332.8
Deferred income taxes	239.6	235.4
Other current assets	77.3	84.1
Total Current Assets	1,426.3	1,690.9
Properties and equipment, net of accumulated depreciation and amortization of \$1,747.1 (2014—\$1,818.4)	813.9	833.5
Goodwill	439.9	452.9
Technology and other intangible assets, net	265.7	288.0
Deferred income taxes	545.6	612.0
Overfunded defined benefit pension plans	44.7	44.1
Investment in unconsolidated affiliate	112.1	113.1
Other assets	59.3	60.7
Total Assets	\$3,707.5	\$4,095.2
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Debt payable within one year	\$72.0	\$96.8
Accounts payable	262.3	255.3
PI warrant liability	—	490.0
Other current liabilities	380.8	340.0
Total Current Liabilities	715.1	1,182.1
Debt payable after one year	2,143.8	1,919.0
Deferred income taxes	17.7	19.3
Income tax contingencies	22.5	24.0
Underfunded and unfunded defined benefit pension plans	440.0	457.5
Other liabilities	111.0	124.3
Total Liabilities	3,450.1	3,726.2
Commitments and Contingencies—Note 8		
Equity		
Common stock issued, par value \$0.01; 300,000,000 shares authorized; outstanding: 71,354,446 (2014—72,922,565)	0.8	0.7
Paid-in capital	491.1	526.1
Retained earnings	416.0	292.1
Treasury stock, at cost: shares: 6,102,179 (2014—4,524,688)	(581.3	) (429.2
Accumulated other comprehensive loss	(73.6	) (23.8
Total W. R. Grace & Co. Shareholders' Equity	253.0	365.9
Noncontrolling interests	4.4	3.1
Total Equity	257.4	369.0
Total Liabilities and Equity	\$3,707.5	\$4,095.2

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



Table of Contents

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

## Consolidated Statements of Equity (unaudited)

(In millions)	Common Stock and Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance, December 31, 2013	\$534.2	\$15.8	\$—	\$10.6	\$10.6	\$571.2
Net income	—	260.8	—	—	1.2	262.0
Repurchase of common stock	—	—	(334.4)	—	—	(334.4)
Purchase of noncontrolling interest	—	—	—	—	(0.7)	(0.7)
Stock based compensation	9.9	—	—	—	—	9.9
Exercise of stock options	(7.2)	—	24.8	—	—	17.6
Tax benefit related to stock plans	0.7	—	—	—	—	0.7
Shares issued	1.9	—	—	—	—	1.9
Other comprehensive income (loss)	—	—	—	(4.6)	0.8	(3.8)
Balance, September 30, 2014	\$539.5	\$276.6	\$(309.6)	\$6.0	\$11.9	\$524.4
Balance, December 31, 2014	\$526.8	\$292.1	\$(429.2)	\$(23.8)	\$3.1	\$369.0
Net income	—	123.9	—	—	0.5	124.4
Repurchase of common stock	—	—	(220.1)	—	—	(220.1)
Purchase of noncontrolling interest	(0.7)	—	—	—	0.7	—
Stock based compensation	7.4	—	—	—	—	7.4
Exercise of stock options	(43.1)	—	68.0	—	—	24.9
Tax benefit related to stock plans	0.5	—	—	—	—	0.5
Shares issued	1.0	—	—	—	—	1.0
Other comprehensive income (loss)	—	—	—	(49.8)	0.1	(49.7)
Balance, September 30, 2015	\$491.9	\$416.0	\$(581.3)	\$(73.6)	\$4.4	\$257.4

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

## Table of Contents

### Notes to Consolidated Financial Statements

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

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

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

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

On February 5, 2015, the Company announced its intent to separate the business, assets and liabilities associated with the Grace Construction Products operating segment and the packaging technologies business (collectively, "GCP") into an independent publicly-traded company. Following the separation, Grace will consist of the Catalysts Technologies and Materials Technologies (excluding the packaging technologies business) operating segments. Grace intends that the separation transaction will be a tax-free spin-off to the Company's stockholders for U.S. federal income tax purposes and expects the transaction to be completed in the 2016 first quarter.

**Chapter 11 Proceedings** On April 2, 2001, Grace and 61 of its United States subsidiaries and affiliates filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") in order to resolve outstanding asbestos personal injury and property damage claims, including class-action lawsuits alleging damages from Zonolite® Attic Insulation ("ZAI"), a former Grace attic insulation product. In 2008, Grace and other parties filed a joint plan of reorganization with the Bankruptcy Court (as subsequently amended, the "Joint Plan"). Following the confirmation of the Joint Plan in 2011 by the Bankruptcy Court and in 2012 by a U.S. District Court, and the resolution of all appeals, Grace emerged from bankruptcy on February 3, 2014.

**Basis of Presentation** The interim Consolidated Financial Statements presented herein are unaudited and should be read in conjunction with the Consolidated Financial Statements presented in the Company's 2014 Annual Report on Form 10-K. Such interim Consolidated Financial Statements reflect all adjustments that, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented; all such adjustments are of a normal recurring nature except for the impacts of adopting new accounting standards as discussed below. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the nine-month interim period ended September 30, 2015, are not necessarily indicative of the results of operations for the year ending December 31, 2015.

**Use of Estimates** The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the periods presented. Actual amounts could differ from those estimates, and the differences could be material. Changes in estimates are recorded in the period identified. Grace's accounting measurements that are most affected by management's estimates of future events are:

• Realization values of net deferred tax assets, which depend on projections of future taxable income (see Note 5);

• Pension and postretirement liabilities that depend on assumptions regarding participant life spans, future inflation, discount rates and total returns on invested funds (see Note 6); and

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

Contingent liabilities, which depend on an assessment of the probability of loss and an estimate of ultimate obligation, such as litigation (see Note 8), income taxes (see Note 5), and environmental remediation (see Note 8).

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

**Venezuela** Until September 30, 2015, Grace accounted for its results in Venezuela at the official exchange rate of 6.3 bolivars to U.S. dollar. Based on developments in the 2015 third quarter, including changed expectations about Grace's ability to import raw materials at the official exchange rate in the future and the increase in inflation, Grace determined that it is no longer appropriate to do so. Effective September 30, 2015, Grace is accounting for its results in Venezuela at the SIMADI rate. At September 30, 2015, this rate was 199 bolivars to U.S. dollar. Grace recorded a pre-tax charge of \$72.5 million in the 2015 third quarter to reflect the devaluation of monetary assets and the impairment of non-monetary assets, including \$40.5 million for cash, \$26.7 million for working capital and \$5.3 million for properties and equipment. Of this amount, \$11.7 million related to inventory was recorded in cost of goods sold, and \$60.8 million related to other assets and liabilities was recorded as a separate line in the Consolidated Statement of Operations. Grace will continue to operate in Venezuela; however, the remaining assets and liabilities, as well as future sales, earnings and cash flows of Grace's Venezuelan subsidiary will be immaterial after September 30, 2015. See "Item 2. Management's Discussion and Analysis—Venezuela" for further discussion.

**Effect of New Accounting Standards** In April 2014, the FASB issued ASU 2014-08 "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This update is intended to change the requirements for reporting discontinued operations and enhance convergence of the FASB's and the International Accounting Standard Board's ("IASB") reporting requirements for discontinued operations. Grace adopted this standard in the first quarter, and it did not have a material effect on the Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." This update is intended to remove inconsistencies and weaknesses in revenue requirements; provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; provide more useful information to users of financial statements through improved disclosure requirements; and simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The new requirements were to be effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years, with early adoption not permitted. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers—Deferral of the Effective Date," deferring the effective date by one year but permitting adoption as of the original effective date. The revised standard allows for two methods of adoption: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying the new standard is recognized as an adjustment to the opening retained earnings balance. Grace does not intend to adopt the standard early and is in the process of determining the adoption method as well as the effects the adoption will have on the Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs." This update is part of the FASB's Simplification Initiative and is also intended to enhance convergence with the IASB's treatment of debt issuance costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

In August 2015, the FASB issued ASU 2015-15 "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements." The update clarifies ASU 2015-03, allowing debt issuance costs related to line of credit arrangements to be deferred and presented as an asset and subsequently amortized ratably over

the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new requirements are effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years, with early

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

adoption permitted. Grace is currently evaluating the effect of these updates on the Consolidated Financial Statements and the timing of adoption. As of September 30, 2015, capitalized financing fees included in other assets in the Consolidated Balance Sheet were \$33.4 million.

In July 2015, the FASB issued ASU 2015-11 "Simplifying the Measurement of Inventory." This update is part of the FASB's Simplification Initiative and is also intended to enhance convergence with the IASB's measurement of inventory. The update requires that inventory be measured at the lower of cost or net realizable value for entities using FIFO or average cost methods. The new requirements are effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years, with early adoption permitted. Grace is currently evaluating its effect on the Consolidated Financial Statements and the timing of adoption.

## 2. Inventories

Inventories are stated at the lower of cost or market, and cost is determined using FIFO. Inventories consisted of the following at September 30, 2015, and December 31, 2014:

(In millions)	September 30, 2015	December 31, 2014
Raw materials	\$82.0	\$78.8
In process	45.4	47.2
Finished products	167.5	177.7
Other	28.2	29.1
	\$323.1	\$332.8

## 3. Debt

## Components of Debt

(In millions)	September 30, 2015	December 31, 2014
U.S. dollar term loan, net of unamortized discount of \$1.8 at September 30, 2015, and \$2.1 at December 31, 2014(1)	\$935.8	\$692.6
5.125% senior notes due 2021	700.0	700.0
5.625% senior notes due 2024	300.0	300.0
Euro term loan, net of unamortized discount of \$0.4 at September 30, 2015, and \$0.4 at December 31, 2014(2)	164.7	181.2
Debt payable—unconsolidated affiliate	31.5	31.5
Deferred payment obligation	28.9	28.2
Other borrowings(3)	54.9	82.3
Total debt	2,215.8	2,015.8
Less debt payable within one year	72.0	96.8
Debt payable after one year	\$2,143.8	\$1,919.0
Weighted average interest rates on total debt	4.1	% 4.3

(1) Interest at LIBOR +200 bps with a 75 bps LIBOR floor at September 30, 2015, and LIBOR +225 bps with a 75 bps LIBOR floor at December 31, 2014.

(2) Interest at EURIBOR +225 bps with a 75 bps EURIBOR floor at September 30, 2015, and EURIBOR +250 bps with a 75 bps EURIBOR floor at December 31, 2014.

(3) Represents borrowings under various lines of credit and other borrowings, primarily by non-U.S. subsidiaries. See Note 4 for a discussion of the fair value of Grace's debt.





Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 3. Debt (Continued)

The principal maturities of debt outstanding at September 30, 2015, were as follows:

	(In millions)
2015	\$31.7
2016	44.7
2017	45.3
2018	16.0
2019	15.3
Thereafter	2,062.8
Total debt	\$2,215.8

On January 30, 2015, Grace borrowed on its \$250 million term loan facility and used the funds, together with cash on hand, to repurchase the warrant issued to the asbestos personal injury trust for \$490 million. (See Note 8 for Chapter 11 information.)

Grace has reviewed the impact of the separation on the credit agreement entered into upon emergence from bankruptcy (the "Credit Agreement"). Grace anticipates that the Credit Agreement will remain with Grace but at the time of the separation will require an amendment to permit the separation. Grace intends to seek such amendment as well as repay a substantial amount of the borrowings under the Credit Agreement in connection with the separation. If an amendment is not granted, Grace will be required to repay all term loan and revolver debt and enter into a new borrowing facility.

Grace has reviewed the impact of the separation on the senior notes. The senior notes will remain obligations of Grace, and Grace does not believe that the separation will have any impact on payment or other terms.

## 4. Fair Value Measurements and Risk

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

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

## Fair Value of Debt and Other Financial Instruments

Debt payable is recorded at carrying value as discussed in Note 3. Fair value is determined based on Level 2 inputs, including expected future cash flows (discounted at market interest rates), estimated current market prices and quotes from financial institutions.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 4. Fair Value Measurements and Risk (Continued)

At September 30, 2015, the carrying amounts and fair values of Grace's debt were as follows:

(In millions)	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
U.S. dollar term loan(1)	\$935.8	\$927.1	\$692.6	\$691.3
5.125% senior notes due 2021	700.0	691.3	700.0	720.9
5.625% senior notes due 2024	300.0	303.0	300.0	312.0
Euro term loan(1)	164.7	164.0	181.2	181.4
Other borrowings	115.3	115.3	142.0	142.0
Total debt	\$2,215.8	\$2,200.7	\$2,015.8	\$2,047.6

Carrying amounts are net of unamortized discounts of \$1.8 million and \$0.4 million as of September 30, 2015, and (1)\$2.1 million and \$0.4 million as of December 31, 2014, related to the U.S. dollar term loan and euro term loan, respectively.

At September 30, 2015, the recorded values of other financial instruments such as cash equivalents and trade receivables and payables approximated their fair values, based on the short-term maturities and floating rate characteristics of these instruments.

**Commodity Derivatives**

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

The valuation of Grace's fixed-rate natural gas swaps was determined using a market approach, based on natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of natural gas. Current open contracts hedge forecasted transactions until December 2015. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive loss" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At September 30, 2015, the contract volume, or notional amount, of the commodity contracts was 1.2 million MMBtu (million British thermal units) with a total contract value of \$4.3 million.

The valuation of Grace's natural gas call options was determined using a market approach, based on the strike price of the options and the natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity option contracts with maturities of not more than 24 months are used and designated as cash flow hedges of forecasted purchases of natural gas. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive loss" and reclassified into income in the same period or periods that the underlying purchases affect income. At September 30, 2015, there are no outstanding commodity option contracts.

The valuation of Grace's fixed-rate aluminum swaps was determined using a market approach, based on aluminum futures trading prices quoted on the London Metal Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of aluminum. Current open contracts hedge forecasted transactions until August 2016. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive loss" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At September 30, 2015, the contract volume, or

notional amount, of the commodity contracts was 1.3 million pounds with a total contract value of \$1.1 million.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 4. Fair Value Measurements and Risk (Continued)

## Currency Derivatives

Because Grace operates in over 40 countries and does business in more than 50 currencies, results are exposed to fluctuations in currency exchange rates. Grace seeks to minimize exposure to these fluctuations by matching sales in volatile currencies with expenditures in the same currencies, but it is not always possible to do so. From time to time Grace will use financial instruments such as currency forward contracts, options, or combinations of the two to reduce the risk of certain specific transactions. However, Grace does not have a policy of hedging all exposures, because management does not believe that such a level of hedging would be cost-effective.

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

## Debt and Interest Rate Swap Agreements

Grace uses interest rate swaps designated as cash flow hedges to manage fluctuations in interest rates on variable rate debt. The effective portion of gains and losses on these interest rate cash flow hedges is recorded in "accumulated other comprehensive loss" and reclassified into "interest expense and related financing costs" during the hedged interest period.

In connection with its emergence financing, Grace entered into an interest rate swap beginning on February 3, 2015, and maturing on February 3, 2020, fixing the LIBOR component of the interest on \$250 million of Grace's term debt at a rate of 2.393%. The valuation of this interest rate swap is determined using both a market approach and an income approach, using prevailing market interest rates and discount rates to present value future cash flows based on the forward LIBOR yield curves.

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2015, and December 31, 2014:

(In millions)	Fair Value Measurements at September 30, 2015, Using			
	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Currency derivatives	\$1.6	\$—	\$1.6	\$—
Total Assets	\$1.6	\$—	\$1.6	\$—
<b>Liabilities</b>				
Interest rate derivatives	\$10.4	\$—	\$10.4	\$—
Commodity derivatives	1.2	—	1.2	—
Currency derivatives	0.9	—	0.9	—
Total Liabilities	\$12.5	\$—	\$12.5	\$—

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 4. Fair Value Measurements and Risk (Continued)

(In millions)	Fair Value Measurements at December 31, 2014, Using			
	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Currency derivatives	\$3.3	\$—	\$3.3	\$—
Total Assets	\$3.3	\$—	\$3.3	\$—
Liabilities				
Interest rate derivatives	\$5.5	\$—	\$5.5	\$—
Commodity derivatives	2.6	—	2.6	—
Currency derivatives	0.1	—	0.1	—
Total Liabilities	\$8.2	\$—	\$8.2	\$—

The following tables present the location and fair values of derivative instruments included in the Consolidated Balance Sheets as of September 30, 2015, and December 31, 2014:

September 30, 2015 (In millions)	Asset Derivatives Balance Sheet		Liability Derivatives Balance Sheet	
	Location	Fair Value	Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Commodity contracts	Other current assets	\$—	Other current liabilities	\$1.2
Currency contracts	Other current assets	1.4	Other current liabilities	0.7
Interest rate contracts	Other current assets	—	Other current liabilities	4.2
Currency contracts	Other assets	0.2	Other liabilities	—
Interest rate contracts	Other assets	—	Other liabilities	6.2
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	—	Other current liabilities	0.2
Total derivatives		\$1.6		\$12.5
December 31, 2014 (In millions)	Asset Derivatives Balance Sheet		Liability Derivatives Balance Sheet	
	Location	Fair Value	Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Commodity contracts	Other current assets	\$—	Other current liabilities	\$2.6

Edgar Filing: W R GRACE & CO - Form 10-Q

Currency contracts	Other current assets	0.8	Other current liabilities	—
Interest rate contracts	Other current assets	—	Other current liabilities	2.5
Currency contracts	Other assets	0.9	Other liabilities	—
Interest rate contracts	Other assets	—	Other liabilities	3.0
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	1.6	Other current liabilities	0.1
Total derivatives		\$3.3		\$8.2

16

---

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 4. Fair Value Measurements and Risk (Continued)

The following tables present the location and amount of gains and losses on derivative instruments included in the Consolidated Statements of Operations or, when applicable, gains and losses initially recognized in other comprehensive income (loss) ("OCI") for the three and nine months ended September 30, 2015 and 2014:

Three Months Ended September 30, 2015 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	\$ (4.1)	) Interest expense	\$ (1.1)
Currency contracts	(0.2)	) Other expense	(0.5)
Currency contracts	0.3	Cost of goods sold	—
Commodity contracts	(0.6)	) Cost of goods sold	(0.9)
Total derivatives	\$ (4.6)	)	\$ (2.5)

		Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:			
Currency contracts		Other expense	\$0.5

Nine Months Ended September 30, 2015 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	\$ (7.0)	) Interest expense	\$ (2.8)
Currency contracts	5.6	) Other expense	5.6
Currency contracts	0.3	Cost of goods sold	—
Commodity contracts	(1.6)	) Cost of goods sold	(3.0)
Total derivatives	\$ (2.7)	)	\$ (0.2)

		Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:			
Currency contracts		Other expense	\$0.4

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 4. Fair Value Measurements and Risk (Continued)

Three Months Ended September 30, 2014 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	\$1.1	Interest expense	\$—
Currency contracts	0.2	Other expense	0.2
Total derivatives	\$1.3		\$0.2

		Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:			
Currency contracts		Other expense	\$2.6

Nine Months Ended September 30, 2014 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	\$(1.8	) Interest expense	\$—
Currency contracts	0.1	) Other expense	—
Commodity contracts	0.4	) Cost of goods sold	0.2
Total derivatives	\$(1.3	)	\$0.2

		Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:			
Currency contracts		Other expense	\$7.4

## Derivatives not designated as hedging instruments under ASC 815:

## Currency contracts

## Net Investment Hedges

Grace uses foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges. The effective portion of gains and losses attributable to these net investment hedges is recorded to "currency translation adjustments" within "accumulated other comprehensive income." Recognition in earnings of amounts previously recorded to "currency translation adjustments" is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. At September 30, 2015, €147.8 million of Grace's term loan principal was designated as a hedging instrument of its net investment in European subsidiaries. The following tables present the location and amount of gains and losses on nonderivative instruments designated as net investment hedges for the three and nine months ended September 30, 2015 and 2014. There were no reclassifications of the effective portion of net investment hedges out of OCI and into earnings for the period



presented in the table below.

18

---

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 4. Fair Value Measurements and Risk (Continued)

	Amount of Gain (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion)
Three Months Ended September 30, 2015 (In millions)	
Nonderivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$0.1
Total nonderivatives	\$0.1
Nine Months Ended September 30, 2015 (In millions)	
Nonderivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$15.3
Total nonderivatives	\$15.3
Three Months Ended September 30, 2014 (In millions)	
Nonderivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$13.0
Total nonderivatives	\$13.0
Nine Months Ended September 30, 2014 (In millions)	
Nonderivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$14.8
Total nonderivatives	\$14.8

## Credit Risk

Grace is exposed to credit risk in its trade accounts receivable. Customers in the petroleum refining and construction industries represent the greatest exposure. Grace's credit evaluation policies, relatively short collection terms and history of minimal credit losses mitigate credit risk exposures. Grace does not generally require collateral for its trade accounts receivable but may require a bank letter of credit in certain instances, particularly when selling to customers in cash-restricted countries.

Grace may also be exposed to credit risk in its derivatives contracts. Grace monitors counterparty credit risk and currently does not anticipate nonperformance by counterparties to its derivatives. Grace's derivative contracts are with internationally recognized commercial financial institutions.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 5. Income Taxes

The annualized effective tax rate on 2015 forecasted income is estimated to be 48.3% as of September 30, 2015, compared with 17.1% for the year ended December 31, 2014. The prior year includes a benefit of \$59.6 million for the release of reserves for uncertain tax positions while 2015 includes estimated tax costs of \$30.1 million to complete the separation transaction and a \$24.7 million impact on the effective tax rate from the nondeductible charge related to Venezuela.

Grace generated approximately \$1,800 million in U.S. federal tax deductions relating to its emergence from bankruptcy, including approximately \$670 million relating to payments made upon emergence, \$632 million upon payment of the PI deferred payment obligation, and \$490 million upon repurchase of the warrant held by the PI Trust. These deductions generated U.S. federal and state NOLs in 2014 and 2015, which Grace will carry forward and expects to utilize in subsequent years. Under U.S. federal income tax law, a corporation is generally permitted to carry forward NOLs for a 20-year period for deduction against future taxable income. Grace also expects to generate U.S. federal tax deductions of \$30 million upon payment of the ZAI PD deferred payment obligation in 2017. The present value of the expected settlement amount has already been recorded as a deferred tax asset for temporary differences. (See Note 8 for Chapter 11 information.)

The following table summarizes the balance of deferred tax assets, net of deferred tax liabilities, at September 30, 2015, of \$766.6 million:

	Deferred Tax Asset (Net of Liabilities)(2)	Valuation Allowance	Net Deferred Tax Asset
United States—Federal(1)	\$681.2	\$(2.2)	) \$679.0
United States—States(1)	55.4	(4.2)	) 51.2
Germany	36.4	—	36.4
Other foreign	4.3	(4.3)	) —
Total	\$777.3	\$(10.7)	) \$766.6

The U.S. federal deductions generated relating to emergence of \$670 million, settlement of the PI deferred (1) payment obligation of \$632 million, and the \$490 million warrant repurchase, plus the \$30 million ZAI PD deferred payment obligation, account for a significant portion of the U.S. federal and state deferred tax assets.

(2) Deferred tax assets are net of \$5.8 million of income tax contingencies related to these deferred tax assets. Grace will need to generate approximately \$2,000 million of U.S. federal taxable income by 2035 (or approximately \$100 million per year during the carryforward period) to fully realize the U.S. federal and a majority of the U.S. state net deferred tax assets.

The following table summarizes expiration dates in jurisdictions where we have, or will have, material tax loss carryforwards:

	Expiration Dates
United States—Federal	2034 - 2035
United States—States	2015 - 2035
Brazil	Unlimited Carryforward

In evaluating Grace's ability to realize its deferred tax assets, Grace considers all reasonably available positive and negative evidence, including recent earnings experience, expectations of future taxable income and the tax character of that income, the period of time over which the temporary differences become deductible and the carryforward and/or carryback periods available to Grace for tax reporting purposes in the related jurisdiction. In estimating future taxable income, Grace relies upon assumptions and estimates about future activities, including the amount of future federal, state and international pretax operating income that Grace will generate; the reversal of temporary differences;

and the implementation of feasible and prudent tax planning strategies. Grace records a valuation allowance to reduce deferred tax assets to the amount that it believes is more likely

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 5. Income Taxes (Continued)

than not to be realized. Grace believes it is reasonably possible that in the next 12 months the amount of the liability for unrecognized tax benefits could decrease by approximately \$2 million.

As part of the separation plan, Grace is restructuring certain legal entities. The process of analyzing the tax consequences of the legal entity separation and restructuring is ongoing and includes determining the required tax liability to be reported. In the 2015 third quarter, the calculation of the annualized effective tax rate includes approximately \$8 million of tax expense associated with the restructuring of foreign subsidiaries.

As of December 31, 2014, Grace had the intent and ability to indefinitely reinvest undistributed earnings of its foreign subsidiaries outside the United States. In the 2015 first quarter, Grace announced its plan to separate into two publicly traded companies and has subsequently reassessed the capital structure and financial requirements of both Grace and GCP. In the 2015 second quarter, Grace determined that it will repatriate approximately \$131 million of foreign earnings in advance of the separation. Such amount was determined based on an analysis of each non-U.S. subsidiary's requirements for working capital, debt repayment and strategic initiatives. Grace also considered local country legal and regulatory restrictions. In the 2015 second quarter, Grace included tax expense of approximately \$5 million in its annualized effective tax rate for repatriation attributable to current earnings and tax expense of approximately \$11 million as a discrete charge for repatriation attributable to prior years' earnings. The tax effect of the repatriation is determined by several variables including the tax rate applicable to the entity making the distribution, the cumulative earnings and associated foreign taxes of the entity and the extent to which those earnings may have already been taxed in the U.S.

Grace and GCP continue to assess their capital structures, financial requirements and ability to repatriate available cash as part of the separation, which may result in additional repatriation prior to the separation. The tax consequences of additional repatriation, as well as other transactions pursuant to the separation, may require recognition of additional tax expense for actual or deemed repatriation of undistributed earnings of our foreign subsidiaries. Grace believes that the separation is a one-time, non-recurring event, and such recognition of deferred taxes of undistributed earnings would not have occurred if not for the separation. Beyond the separation, Grace expects undistributed prior-year earnings of its foreign subsidiaries to remain permanently reinvested except in certain instances where repatriation of such earnings would result in minimal or no tax. Grace bases this assertion on:

- (1) the expectation that it will satisfy its U.S. cash obligations in the foreseeable future without requiring the repatriation of prior-year foreign earnings;
- (2) plans for significant and continued reinvestment of foreign earnings in organic and inorganic growth initiatives outside the U.S.; and
- (3) remittance restrictions imposed by local governments.

Grace will continually analyze and evaluate its cash needs to determine the appropriateness of its indefinite reinvestment assertion.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 6. Pension Plans and Other Postretirement Benefit Plans

**Pension Plans** The following table presents the funded status of Grace's fully-funded, underfunded, and unfunded pension plans:

(In millions)	September 30, 2015	December 31, 2014
Overfunded defined benefit pension plans	\$44.7	\$44.1
Underfunded defined benefit pension plans	(81.9	) (79.5
Unfunded defined benefit pension plans	(358.1	) (378.0
Total underfunded and unfunded defined benefit pension plans	(440.0	) (457.5
Pension liabilities included in other current liabilities	(15.2	) (15.6
Net funded status	\$(410.5	) \$(429.0

Fully-funded plans include several advance-funded plans where the fair value of the plan assets exceeds the projected benefit obligation ("PBO"). This group of plans was overfunded by \$44.7 million as of September 30, 2015, and the overfunded status is reflected as "overfunded defined benefit pension plans" in the Consolidated Balance Sheets.

Underfunded plans include a group of advance-funded plans that are underfunded on a PBO basis. Unfunded plans include several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO is unfunded. The combined balance of the underfunded and unfunded plans was \$455.2 million as of September 30, 2015.

**Postretirement Benefits Other Than Pensions** Grace has provided postretirement health care and life insurance benefits for retired employees of certain U.S. business units and certain divested business units. The postretirement medical plan provided various levels of benefits to employees hired before 1993 who retired from Grace after age 55 with at least 10 years of service. These plans are unfunded and Grace pays a portion of the costs of benefits under these plans as they are incurred. Grace applies ASC 715 "Compensation—Retirement Benefits" to these plans, which requires that the future costs of postretirement health care and life insurance benefits be accrued over the employees' years of service. Actuarial gains and losses are recognized in the Consolidated Balance Sheets as a component of Shareholders' Equity, with amortization of the net actuarial gains and losses that exceed 10 percent of the accumulated postretirement benefit obligation recognized each quarter in the Consolidated Statements of Operations over the average future service period of active employees.

In June 2014, Grace announced that it would discontinue its postretirement medical plan for all U.S. employees effective October 31, 2014, and eliminate certain postretirement life insurance benefits. As a result of these actions, Grace recognized a gain of \$41.9 million in other comprehensive income in the 2014 second quarter. Grace amortized \$39.5 million from accumulated other comprehensive income into the Consolidated Statement of Operations during the five-month period from June to October 2014.

The postretirement plan was further remeasured as of September 30, 2015, due to a plan amendment to eliminate certain postretirement life insurance benefits, which resulted in a curtailment gain of \$4.5 million.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 6. Pension Plans and Other Postretirement Benefit Plans (Continued)

## Components of Net Periodic Benefit Cost (Income)

(In millions)	Three Months Ended September 30,					
	2015			2014		
	Pension U.S.	Non-U.S.	Other Post Retirement	Pension U.S.	Non-U.S.	Other Post Retirement
Service cost	\$6.4	\$3.0	\$—	\$5.8	\$2.7	\$—
Interest cost	13.7	4.1	—	15.0	5.7	0.1
Expected return on plan assets	(17.6 )	(3.3 )	—	(17.4 )	(3.9 )	—
Amortization of prior service cost (credit)	0.1	—	(0.9 )	0.1	—	(0.9 )
Amortization of net deferred actuarial loss	—	—	0.2	—	—	0.2
Gain on termination and curtailment of postretirement plans	—	—	(4.5 )	—	—	(23.7 )
Net periodic benefit cost (income)	\$2.6	\$3.8	\$(5.2 )	\$3.5	\$4.5	\$(24.3 )
(In millions)	Nine Months Ended September 30,					
	2015			2014		
	Pension U.S.	Non-U.S.	Other Post Retirement	Pension U.S.	Non-U.S.	Other Post Retirement
Service cost	\$19.3	\$8.9	\$—	\$17.6	\$8.2	\$0.1
Interest cost	41.3	12.3	0.1	45.1	17.0	1.0
Expected return on plan assets	(52.8 )	(10.0 )	—	(52.4 )	(11.7 )	—
Amortization of prior service cost (credit)	0.2	—	(2.8 )	0.5	—	(1.4 )
Amortization of net deferred actuarial loss (gain)	—	—	0.5	—	—	(0.1 )
Mark-to-market adjustment	—	—	—	(3.1 )	—	—
Gain on termination and curtailment of postretirement plans	—	—	(4.5 )	—	—	(31.6 )
Net periodic benefit cost (income)	\$8.0	\$11.2	\$(6.7 )	\$7.7	\$13.5	\$(32.0 )

At emergence, benefit payments of approximately \$27 million were paid from a U.S. nonqualified pension plan in connection with Grace's emergence from bankruptcy. As a result, that plan was remeasured as of March 1, 2014, using a discount rate of 4.43%. The remeasurement resulted in a mark-to-market gain of \$3.1 million.

**Plan Contributions and Funding** Grace intends to satisfy its funding obligations under the U.S. qualified pension plans and to comply with all of the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). For ERISA purposes, funded status is calculated on a different basis than under U.S. GAAP.

Grace intends to fund non-U.S. pension plans based on applicable legal requirements and actuarial and trustee recommendations.

**Defined Contribution Retirement Plan** Grace sponsors a defined contribution retirement plan for its employees in the United States. This plan is qualified under section 401(k) of the U.S. tax code. Currently, Grace contributes an amount equal to 100% of employee contributions, up to 6% of an individual employee's salary or wages. Grace's costs related to this benefit plan for the three and nine months ended September 30, 2015, were \$3.7 million and \$11.6 million compared with \$3.6 million and \$10.2 million for the corresponding prior-year periods.



Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 7. Other Balance Sheet Accounts

(In millions)	September 30, 2015	December 31, 2014
Other Current Liabilities		
Accrued compensation	\$75.5	\$77.0
Income tax payable	56.6	34.1
Customer volume rebates	39.2	37.8
Accrued interest	32.2	21.0
Deferred revenue	21.4	19.4
Environmental contingencies	20.7	21.5
Pension liabilities	15.2	15.6
Deferred tax liability	0.9	1.5
Other accrued liabilities	119.1	112.1
	\$380.8	\$340.0

Accrued compensation in the table above includes salaries and wages as well as estimated current amounts due under the annual and long-term incentive programs.

## 8. Commitments and Contingent Liabilities

**Asbestos-Related Liabilities** Grace emerged from an asbestos-related Chapter 11 bankruptcy on February 3, 2014 (the "Effective Date"). Under its plan of reorganization, all pending and future asbestos-related claims are channeled for resolution to either a personal injury trust (the "PI Trust") or a property damage trust (the "PD Trust"). The trusts are the sole recourse for holders of asbestos-related claims. The channeling injunctions issued by the bankruptcy court prohibit holders of asbestos-related claims from asserting such claims directly against Grace.

Grace has satisfied all of its financial obligations to the PI Trust. Grace has fixed and contingent obligations remaining to the PD Trust. With respect to property damage claims related to Grace's former attic insulation product installed in the U.S. ("ZAI PD Claims"), the PD Trust was funded with \$34.4 million on the Effective Date. Grace is obligated to make a payment of \$30 million to the PD Trust in respect of ZAI PD Claims on February 3, 2017, and has recorded a liability of \$28.9 million representing the present value of this amount in "debt payable after one year" in the accompanying Consolidated Balance Sheets. Grace is also obligated to make up to 10 contingent deferred payments of \$8 million per year to the PD Trust in respect of ZAI PD Claims during the 20-year period beginning on the fifth anniversary of the Effective Date, with each such payment due only if the assets of the PD Trust in respect of ZAI PD Claims fall below \$10 million during the preceding year. Grace has not accrued for the 10 additional payments as Grace does not currently believe they are probable. Grace is not obligated to make additional payments to the PD Trust in respect of ZAI PD Claims beyond the payments described above. Grace has satisfied all of its financial obligations with respect to Canadian ZAI PD Claims.

With respect to other asbestos property damage claims ("Other PD Claims"), claims unresolved as of the Effective Date are to be litigated in the bankruptcy court and any future claims are to be litigated in a federal district court, in each case pursuant to procedures to be approved by the bankruptcy court. To the extent any such Other PD Claims are determined to be allowed claims, they are to be paid in cash by the PD Trust. Grace is obligated to make a payment to the PD Trust every six months in the amount of any Other PD Claims allowed during the preceding six months plus interest (if applicable) and the amount of PD Trust expenses for the preceding six months (the "PD Obligation"). The aggregate amount to be paid under the PD Obligation is not capped and Grace may be obligated to make additional payments to the PD Trust in respect of the PD Obligation. Grace has accrued for those unresolved Other PD Claims that it believes are probable and estimable. Grace has not accrued for other unresolved or unasserted Other PD Claims as it does not believe that payment is probable.

All payments to the PD Trust required after the Effective Date are secured by the Company's obligation to issue 77,372,257 shares of Company common stock to the PD Trust in the event of default, subject to customary anti-dilution provisions.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 8. Commitments and Contingent Liabilities (Continued)

This summary of the commitments and contingencies related to the Chapter 11 proceeding does not purport to be complete and is qualified in its entirety by reference to the plan of reorganization and the exhibits and documents related thereto, which have been filed with the SEC.

**Environmental Remediation** Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to the generation, storage, handling, discharge, disposition and stewardship of hazardous wastes and other materials. Grace accrues for anticipated costs associated with response efforts where an assessment has indicated that a probable liability has been incurred and the cost can be reasonably estimated. These accruals do not take into account any discounting for the time value of money.

Grace's environmental liabilities are reassessed whenever circumstances become better defined or response efforts and their costs can be better estimated. These liabilities are evaluated based on currently available information, including the progress of remedial investigation at each site, the current status of discussions with regulatory authorities regarding the method and extent of remediation at each site, existing technology, prior experience in contaminated site remediation and the apportionment of costs among potentially responsible parties.

**Estimated Investigation and Remediation Costs**

At September 30, 2015, Grace's estimated liability for environmental investigation and remediation costs totaled \$54.6 million, compared with \$61.7 million at December 31, 2014, and was included in "other current liabilities" and "other liabilities" in the Consolidated Balance Sheets. These amounts are based on funding and/or remediation agreements in place and Grace's estimate of costs for sites not subject to a formal remediation plan for which sufficient information is available to estimate response costs. These amounts do not include certain response costs for the Libby vermiculite mine area or certain vermiculite expansion facilities, which may be material but are not currently estimable. Due to these vermiculite-related matters, it is probable that Grace's actual response costs will exceed Grace's current estimates by material amounts. Net cash paid against previously established reserves for the nine months ended September 30, 2015 and 2014, were \$8.7 million and \$9.7 million, respectively.

**Vermiculite-Related Matters**

Grace purchased a vermiculite mine in Libby, Montana, in 1963 and operated it until 1990. Vermiculite concentrate from the Libby mine was used in the manufacture of attic insulation and other products. Some of the vermiculite ore contained naturally occurring asbestos. The U.S. Environmental Protection Agency (the "EPA") and Grace are engaged in a remedial investigation of the Libby mine and the surrounding area.

During 2010, the EPA began reinvestigating certain facilities on a list of 105 facilities where vermiculite concentrate from the Libby mine may have been used, stored or processed. Grace is cooperating with the EPA on this reinvestigation and has remediated several of these facilities. It is probable that the EPA will request additional remediation at other facilities.

Grace's total estimated liability for response costs that are currently estimable related to its former vermiculite operations in Libby and vermiculite processing sites outside of Libby at September 30, 2015, and December 31, 2014, was \$15.4 million and \$19.4 million, respectively. It is probable that Grace's ultimate liability for these vermiculite-related matters will exceed current estimates by material amounts. Grace's current recorded liability will be adjusted as Grace receives new information and amounts become reasonably estimable.

**Non-Vermiculite-Related Matters**

At September 30, 2015, and December 31, 2014, Grace's estimated liability for response costs at sites not related to its former vermiculite mining and processing activities was \$39.2 million and \$42.3 million, respectively. This liability relates to Grace's current and former operations, including its share of liability for off-site disposal at facilities where it has been identified as a potentially responsible party. Grace's estimated liability is based upon



Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 8. Commitments and Contingent Liabilities (Continued)

regulatory requirements and environmental conditions at each site. As Grace receives new information its estimated liability may change materially.

**Purchase Commitments** Grace uses purchase commitments to ensure supply and to minimize the volatility of major components of direct manufacturing costs including natural gas, certain metals, rare earths, asphalt, amines and other materials. Such commitments are for quantities that Grace fully expects to use in its normal operations.

**Guarantees and Indemnification Obligations** Grace is a party to many contracts containing guarantees and indemnification obligations. These contracts primarily consist of:

- Product warranties with respect to certain products sold to customers in the ordinary course of business. These warranties typically provide that products will conform to specifications. Grace accrues a warranty liability on a transaction-specific basis depending on the individual facts and circumstances related to each sale. Both the liability and annual expense related to product warranties are immaterial to the Consolidated Financial Statements.

- Performance guarantees offered to customers under certain licensing arrangements. Grace has not established a liability for these arrangements based on past performance.

- Licenses of intellectual property by Grace to third parties in which Grace has agreed to indemnify the licensee against third party infringement claims.

- Contracts providing for the sale of a former business unit or product line in which Grace has agreed to indemnify the buyer against liabilities arising prior to the closing of the transaction, including environmental liabilities.

- Guarantees of real property lease obligations of third parties, typically arising out of (a) leases entered into by former subsidiaries of Grace, or (b) the assignment or sublease of a lease by Grace to a third party.

**Financial Assurances** Financial assurances have been established for a variety of purposes, including insurance and environmental matters, trade-related commitments and other matters. At September 30, 2015, Grace had gross financial assurances issued and outstanding of \$127.5 million, composed of \$34.2 million of surety bonds issued by various insurance companies and \$93.3 million of standby letters of credit and other financial assurances issued by various banks.

**Accounting for Contingencies** Although the outcome of each of the matters discussed above cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under U.S. GAAP.

## 9. Restructuring Expenses, Asset Impairments and Repositioning Expenses

**Restructuring Expenses and Asset Impairments**

In the third quarter, Grace incurred costs from restructuring actions as a result of changes in the business environment and its business structure, which are included in "other expense, net" in the Consolidated Statements of Operations.

Grace incurred \$4.8 million (\$0.5 million in Catalysts Technologies, \$0.4 million in Construction Products, \$0.3 million in Materials Technologies, and \$3.6 million in Corporate) of restructuring expenses during the third quarter, compared with \$0.8 million during the prior-year quarter. These costs are not included in segment operating income. Substantially all costs related to the restructuring programs are expected to be paid by September 30, 2016.

During the nine months ended September 30, 2014, Grace incurred asset impairment charges of \$14.3 million, of which \$9.8 million related to the concrete production management systems product that is part of the Construction Products operating segment and \$4.5 million related to an unconsolidated investment.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 9. Restructuring Expenses, Asset Impairments and Repositioning Expenses (Continued)

Restructuring Expenses and Asset Impairments (In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Restructuring expenses	\$4.8	\$0.8	\$18.7	\$3.5
Asset impairments	—	4.6	—	14.3
Total restructuring expenses and asset impairments	\$4.8	\$5.4	\$18.7	\$17.8
Restructuring Liability (In millions)				Total
Balance, December 31, 2014				\$4.5
Accruals for severance and other costs				18.7
Payments				(12.1 )
Currency translation adjustments and other				0.3
Balance, September 30, 2015				\$11.4

Repositioning Expenses  
In the third quarter and nine months ended September 30, 2015, Grace incurred repositioning expenses of \$14.0 million and \$34.3 million, respectively, related to its planned separation into two independent companies.

(In millions)	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Professional fees	\$10.4	\$26.5
Employee-related costs	3.6	7.8
Total	\$14.0	\$34.3

Substantially all of these costs have been or are expected to be settled in cash.

## 10. Other Expense, net

Components of other expense, net are as follows:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Restructuring expenses and asset impairments	\$4.8	\$5.4	\$18.7	\$17.8
Asbestos and bankruptcy-related charges, net	—	0.4	(8.7 )	6.8
Net loss on sales of investments and disposals of assets	0.1	0.3	2.0	1.0
Provision for environmental remediation, net	4.2	4.2	1.6	8.8
Currency transaction effects	0.5	(1.6 )	(0.6 )	(0.9 )
Interest income	(0.1 )	(0.3 )	(0.3 )	(1.3 )
Other miscellaneous expense (income)	1.2	0.6	0.4	(2.3 )
Total other expense, net	\$10.7	\$9.0	\$13.1	\$29.9

In the 2015 first quarter, Grace finalized its accounting for emergence from bankruptcy and recorded a gain of \$9.0 million reflecting the final resolution of certain bankruptcy liabilities.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 11. Other Comprehensive Income (Loss)

The following tables present the pre-tax, tax, and after-tax components of Grace's other comprehensive income (loss) for the three and nine months ended September 30, 2015 and 2014:

Three Months Ended September 30, 2015 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Net prior service credit arising during period	\$1.1	\$(0.4)	\$0.7
Net deferred actuarial gain arising during period	0.1	—	0.1
Gain on curtailment of postretirement plans	(4.5)	1.6	(2.9)
Amortization of net prior service credit included in net periodic benefit cost	(0.8)	0.2	(0.6)
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.2	(0.1)	0.1
Benefit plans, net	(3.9)	1.3	(2.6)
Currency translation adjustments	(32.8)	—	(32.8)
Loss from hedging activities	(2.1)	0.7	(1.4)
Other comprehensive loss attributable to W. R. Grace & Co. shareholders	\$(38.8)	\$2.0	\$(36.8)
Nine Months Ended September 30, 2015 (In millions)			
Defined benefit pension and other postretirement plans:			
Net prior service credit arising during period	\$1.1	\$(0.4)	\$0.7
Net deferred actuarial gain arising during period	0.1	—	0.1
Gain on curtailment of postretirement plans	(4.5)	1.6	(2.9)
Amortization of net prior service credit included in net periodic benefit cost	(2.6)	0.9	(1.7)
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.5	(0.2)	0.3
Other changes in funded status	(0.4)	0.1	(0.3)
Benefit plans, net	(5.8)	2.0	(3.8)
Currency translation adjustments	(44.3)	—	(44.3)
Loss from hedging activities	(2.5)	0.8	(1.7)
Other comprehensive loss attributable to W. R. Grace & Co. shareholders	\$(52.6)	\$2.8	\$(49.8)
Three Months Ended September 30, 2014 (In millions)			
Defined benefit pension and other postretirement plans:			
Gain on termination of postretirement plans	\$(23.7)	\$5.5	\$(18.2)
Amortization of net prior service credit included in net periodic benefit cost	(0.8)	0.3	(0.5)
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.2	(0.1)	0.1
Benefit plans, net	(24.3)	5.7	(18.6)
Currency translation adjustments	(12.7)	—	(12.7)
Gain from hedging activities	1.1	(0.4)	0.7
Other than temporary impairment of investment	0.8	—	0.8
Gain on securities available for sale	0.7	(0.3)	0.4
Other comprehensive loss attributable to W. R. Grace & Co. shareholders	\$(34.4)	\$5.0	\$(29.4)





Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 11. Other Comprehensive Income (Loss) (Continued)

Nine Months Ended September 30, 2014 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Net gain due to postretirement plan changes	\$41.9	\$(14.7 )	\$27.2
Gain on termination of postretirement plans	(31.6 )	8.3	(23.3 )
Amortization of net prior service credit included in net periodic benefit cost	(0.9 )	0.3	(0.6 )
Amortization of net deferred actuarial gain included in net periodic benefit cost	(0.1 )	—	(0.1 )
Benefit plans, net	9.3	(6.1 )	3.2
Currency translation adjustments	(7.5 )	—	(7.5 )
Loss from hedging activities	(1.5 )	0.5	(1.0 )
Other than temporary impairment of investment	0.8	—	0.8
Loss on securities available for sale	(0.1 )	—	(0.1 )
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$1.0	\$(5.6 )	\$(4.6 )

The following tables present the changes in accumulated other comprehensive income (loss), net of tax, for the nine months ended September 30, 2015 and 2014:

Nine Months Ended September 30, 2015 (In millions)	Defined Benefit Pension and Other Postretirement Plans	Currency Translation Adjustments	Loss from Hedging Activities	Total
Beginning balance	\$4.0	\$(22.8 )	\$(5.0 )	\$(23.8 )
Other comprehensive income (loss) before reclassifications	0.5	(44.3 )	(0.9 )	(44.7 )
Amounts reclassified from accumulated other comprehensive income	(4.3 )	—	(0.8 )	(5.1 )
Net current-period other comprehensive loss	(3.8 )	(44.3 )	(1.7 )	(49.8 )
Ending balance	\$0.2	\$(67.1 )	\$(6.7 )	\$(73.6 )

  

Nine Months Ended September 30, 2014 (In millions)	Defined Benefit Pension and Other Postretirement Plans	Currency Translation Adjustments	Loss from Hedging Activities	Unrealized Loss on Investment	Gain (Loss) on Securities Available for Sale	Total
Beginning balance	\$6.6	\$5.2	\$(0.5 )	\$(0.8 )	\$0.1	\$10.6
Other comprehensive income (loss) before reclassifications	27.2	(7.5 )	(0.8 )	—	(0.7 )	18.2
Amounts reclassified from accumulated other comprehensive income	(24.0 )	—	(0.2 )	0.8	0.6	(22.8 )
	3.2	(7.5 )	(1.0 )	0.8	(0.1 )	(4.6 )

Net current-period other  
comprehensive income (loss)

Ending balance	\$9.8	\$(2.3	)	\$(1.5	)	\$—	\$—	\$6.0
----------------	-------	--------	---	--------	---	-----	-----	-------

Grace is a global enterprise operating in over 40 countries with local currency generally deemed to be the functional currency for accounting purposes. The currency translation amount represents the adjustments necessary to translate the balance sheets valued in local currencies to the U.S. dollar as of the end of each period presented, and to translate revenues and expenses at average exchange rates for each period presented.

See Note 4 for a discussion of hedging activities. See Note 6 for a discussion of pension plans and other postretirement benefit plans.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 12. Earnings Per Share

The following table shows a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share.

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Numerators				
Net income attributable to W. R. Grace & Co. shareholders	\$13.8	\$74.5	\$123.9	\$260.8
Denominators				
Weighted average common shares—basic calculation	72.1	74.7	72.5	75.9
Dilutive effect of employee stock options	0.6	0.9	0.6	0.9
Weighted average common shares—diluted calculation	72.7	75.6	73.1	76.8
Basic earnings per share	\$0.19	\$1.00	\$1.71	\$3.44
Diluted earnings per share	\$0.19	\$0.99	\$1.69	\$3.40

There were approximately 0.6 million and 0.4 million anti-dilutive options outstanding for the three and nine months ended September 30, 2015, respectively. There were approximately 0.4 million and 0.3 million anti-dilutive options outstanding for the three and nine months ended September 30, 2014, respectively.

On February 4, 2014, Grace announced that the Company's Board of Directors had authorized a share repurchase program of up to \$500 million expected to be completed over the following 12 to 24 months at the discretion of management. The Company completed this initial share repurchase program on January 15, 2015. On February 5, 2015, the Grace announced that the Company's Board of Directors had authorized an additional share repurchase program of up to \$500 million. The timing of the repurchases and the actual amount repurchased will depend on a variety of factors, including the market price of the Company's shares, the strategic deployment of capital, and general market and economic conditions. During the nine months ended September 30, 2015 and 2014, the Company repurchased 2,263,121 shares and 3,489,819 shares of Company common stock for \$220.1 million and \$334.4 million, respectively, pursuant to the terms of its share repurchase programs.

## 13. Operating Segment Information

Grace is a global producer of specialty chemicals and specialty materials. Grace manages its business through three operating segments: Grace Catalysts Technologies, Grace Materials Technologies, and Grace Construction Products. Grace Catalysts Technologies includes catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications. Grace's Advanced Refining Technologies (ART) joint venture is managed in this segment. ART is an unconsolidated affiliate, and Grace accounts for ART using the equity method as discussed in Note 14. Grace Materials Technologies includes packaging products and engineered materials, coatings and sealants used in consumer, industrial, and pharmaceutical applications. Grace Construction Products includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction. Intersegment sales are eliminated in consolidation. The table below presents information related to Grace's operating segments. Only those corporate expenses directly related to the operating segments are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

Grace excludes defined benefit pension expense from the calculation of segment operating income. Grace believes that the exclusion of defined benefit pension expense provides a better indicator of its operating segment performance as defined benefit pension expense is not managed at an operating segment level.

Grace defines Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense; income taxes; costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of

prior service costs/credits; income and expense items related to divested businesses, product

30

---

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 13. Operating Segment Information (Continued)

lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; and certain other unusual or infrequent items that are not representative of underlying trends.

## Operating Segment Data

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Sales				
Catalysts Technologies	\$285.3	\$329.3	\$855.6	\$927.0
Materials Technologies	200.9	229.1	605.4	685.0
Construction Products	303.9	298.0	831.8	826.9
Total	\$790.1	\$856.4	\$2,292.8	\$2,438.9
Adjusted EBIT				
Catalysts Technologies segment operating income	\$86.4	\$100.9	\$246.7	\$269.6
Materials Technologies segment operating income	46.4	48.7	133.1	143.9
Construction Products segment operating income	67.3	48.9	150.6	119.3
Corporate costs	(22.2 )	(23.8 )	(65.9 )	(69.1 )
Gain on termination and curtailment of postretirement plans related to current businesses	1.9	14.2	1.9	18.9
Certain pension costs	(6.4 )	(8.0 )	(19.2 )	(24.3 )
Total	\$173.4	\$180.9	\$447.2	\$458.3

Corporate costs include corporate support function costs and other corporate costs such as professional fees and insurance premiums.

## Reconciliation of Operating Segment Data to Financial Statements

Grace Adjusted EBIT for the three and nine months ended September 30, 2015 and 2014, is reconciled below to income before income taxes presented in the accompanying Consolidated Statements of Operations.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Grace Adjusted EBIT	\$173.4	\$180.9	\$447.2	\$458.3
Currency and other losses in Venezuela	(72.5 )	(1.0 )	(72.5 )	(1.0 )
Repositioning expenses	(14.0 )	—	(34.3 )	—
Restructuring expenses and asset impairments	(4.8 )	(5.4 )	(18.7 )	(17.8 )
Pension MTM adjustment and other related costs, net	—	—	(4.7 )	4.8
Gain on termination and curtailment of postretirement plans related to divested businesses	2.6	9.5	2.6	12.7
Income and expense items related to divested businesses	0.7	(2.1 )	1.0	(6.8 )
(Costs) benefit related to Chapter 11 and asbestos, net	(6.1 )	(4.7 )	0.9	(21.7 )
Net income attributable to noncontrolling interests	0.3	0.5	0.5	1.2
Gain on sale of product line	—	—	—	0.2
Interest expense, net	(25.4 )	(58.1 )	(75.2 )	(101.2 )
Income before income taxes	\$54.2	\$119.6	\$246.8	\$328.7



Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 13. Operating Segment Information (Continued)

## Geographic Area Data

The table below presents information related to the geographic areas in which Grace operates. Sales are attributed to geographic areas based on customer location.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Sales				
United States	\$248.7	\$258.5	\$712.2	\$703.2
Canada and Puerto Rico	15.7	22.2	58.8	60.4
Total North America	264.4	280.7	771.0	763.6
Europe Middle East Africa	246.9	280.8	724.6	845.5
Asia Pacific	172.3	199.5	534.6	554.5
Latin America	106.5	95.4	262.6	275.3
Total	\$790.1	\$856.4	\$2,292.8	\$2,438.9

## 14. Unconsolidated Affiliate

Grace accounts for its 50% ownership interest in ART using the equity method of accounting. Grace's investment in ART amounted to \$112.1 million and \$113.1 million as of September 30, 2015, and December 31, 2014, respectively, and the amount included in "equity in earnings of unconsolidated affiliate" in the accompanying Consolidated Statements of Operations totaled \$3.6 million and \$12.1 million for the three and nine months ended September 30, 2015, compared with \$6.4 million and \$13.2 million for the three and nine months ended September 30, 2014, respectively.

Grace and ART transact business on a regular basis and maintain several agreements in order to operate the joint venture. These agreements are treated as related party activities with an unconsolidated affiliate. The table below presents summary financial data related to transactions between Grace and ART.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Grace sales of catalysts to ART	\$76.7	\$67.8	\$194.2	\$197.8
Charges for fixed costs, research and development and selling, general and administrative services to ART	6.0	6.1	17.8	20.7

Grace and Chevron provide lines of credit in the amount of \$15.0 million each at a commitment fee of 0.1% of the credit amount. These agreements expire on February 26, 2016. No amounts were outstanding at September 30, 2015, and December 31, 2014.

Table of Contents

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We generally refer to the quarter ended September 30, 2015, as the "third quarter," the quarter ended September 30, 2014, as the "prior-year quarter," the quarter ended March 31, 2015, as the "2015 first quarter," the quarter ended June 30, 2015, as the "2015 second quarter," the nine months ended September 30, 2015, as the "nine months," and the nine months ended September 30, 2014, as the "prior-year period." Our references to "advanced economies" and "emerging regions" refer to classifications established by the International Monetary Fund. See Analysis of Operations for a discussion of our non-GAAP performance measures.

## Results of Operations

## Third Quarter Performance Summary

Following is a summary of our financial performance for the third quarter compared with the prior-year quarter.

Net sales decreased 7.7% to \$790.1 million, and decreased 1.3% on a constant currency basis.

Adjusted EBIT decreased 4.1% to \$173.4 million, and increased 0.4% on a constant currency basis.

Net income decreased 81.5% to \$13.8 million or \$0.19 per diluted share. Adjusted EPS was \$1.37 per diluted share.

Net income includes a pre-tax charge of \$72.5 million related to our Venezuelan operations.

Adjusted EBIT Return On Invested Capital was 32.3% on a trailing four quarters basis compared with 29.7% for the 2014 third quarter.

On February 5, 2015, the Company announced its intent to separate the business, assets and liabilities associated with the Grace Construction Products operating segment and the packaging technologies business (collectively, "GCP") into an independent publicly-traded company. Following the separation, Grace will consist of the Catalysts Technologies and Materials Technologies (excluding the packaging technologies business) operating segments. Grace intends that the separation transaction will be a tax-free spin-off to the Company's stockholders for U.S. federal income tax purposes and expects the transaction to be completed in the 2016 first quarter.

## Summary Description of Business

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through our three operating segments.

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

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

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

- Polyolefin catalysts and catalyst supports, also called specialty catalysts (SC), for the production of polypropylene and polyethylene thermoplastic resins, which can be customized to enhance the performance of a wide range of industrial and consumer end-use applications including high pressure pipe, geomembranes, food packaging, automotive parts, medical devices, and textiles; chemical



## Table of Contents

catalysts used in a variety of industrial, environmental and consumer applications; and gas-phase polypropylene process technology, which provides our licensees with a reliable capability to manufacture polypropylene products for a broad array of end-use applications.

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

• Engineered materials, including silica-based and silica-alumina-based materials, used in:

• Coatings and print media applications, including functional additives that provide matting effects and corrosion protection for industrial and consumer coatings and media and paper products to enhance quality in ink jet coatings.

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

• Industrial applications, such as tires and rubber, precision investment casting, refractory, insulating glass windows, adsorbents for use in petrochemical and natural gas processes and biofuels, various functions such as reinforcement, high temperature binding and moisture scavenging.

• Pharmaceutical, life science and related applications including silica-based separation media, excipients and pharmaceutical intermediates; complementary purification products, chromatography consumables, and instruments; and CO<sub>2</sub> absorbents used in anesthesiology and mine safety applications.

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

Grace Construction Products produces and sells construction chemicals and building materials, as follows:

• Specialty construction chemicals (SCC) used to improve the performance of portland cement and materials based on portland cement including:

• Concrete admixtures that are sold to ready-mix, precast, and sprayed concrete producers to improve the rheology, workability, quality, durability and other engineering properties of concrete, reduce production costs and provide differentiated product offerings. Certain of our concrete admixtures include polyolefin fibers which are used to improve the strength of concrete and enables the replacement of steel reinforcement, in certain cases.

• Cement additives that are sold to manufacturers of portland cement to improve energy efficiency in cement milling operations and to enhance the characteristics of finished cement. Our additives are also used by cement manufacturers to meet national standards for cement quality at lower production cost and with a reduced environmental footprint, including lower CO<sub>2</sub> emissions.

• Specialty building materials (SBM) used in both new construction and renovation/repair projects including:

• Sheet and liquid membrane systems that protect commercial buildings, residential buildings and infrastructure from above- and below-grade water penetration and above-grade vapor and air penetration and underlayments used to protect sloped roofs from wind and water penetration.

Global Scope

We operate our business on a global scale with approximately 71% of our annual 2014 sales and 69% of our nine months sales outside the United States. We operate in over 40 countries and do business in more than

Table of Contents

50 currencies. We manage our operating segments on a global basis, to serve global markets. Currency fluctuations affect our reported results of operations, cash flows, and financial position.

Analysis of Operations

We have set forth in the table below our key operating statistics with percentage changes for the third quarter compared with the prior-year quarter. Please refer to this Analysis of Operations when reviewing this Management's Discussion and Analysis of Financial Condition and Results of Operations.

We define Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense; income taxes; costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines, and certain other investments; gains and losses on sales of businesses, product lines, and certain other investments; and certain other unusual or infrequent items that are not representative of underlying trends.

We define Adjusted EBITDA (a non-GAAP financial measure) to be Adjusted EBIT adjusted for depreciation and amortization.

We define Adjusted Earnings Per Share (EPS) (a non-GAAP financial measure) to be diluted EPS adjusted for costs related to Chapter 11 and asbestos; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; income and expense items related to divested businesses, product lines, and certain other investments; gains and losses on sales of businesses, product lines and certain other investments; certain other unusual or infrequent items that are not representative of underlying trends; and certain discrete tax items.

We define Adjusted EBIT Return On Invested Capital (a non-GAAP financial measure) to be Adjusted EBIT (on a trailing four quarters basis) divided by the sum of net working capital, properties and equipment and certain other assets and liabilities.

We define Adjusted Gross Margin (a non-GAAP financial measure) to be gross margin adjusted for pension-related costs and loss in Venezuela included in cost of goods sold.

We use Adjusted EBIT as a performance measure in significant business decisions and in determining certain incentive compensation. We use Adjusted EBIT as a performance measure because it provides improved period-to-period comparability for decision making and compensation purposes, and because it better measures the ongoing earnings results of our strategic and operating decisions by excluding the earnings effects of our Chapter 11 proceedings, asbestos liabilities, restructuring and repositioning activities, and divested businesses.

Adjusted EBIT, Adjusted EBITDA, Adjusted EPS, Adjusted EBIT Return On Invested Capital and Adjusted Gross Margin do not purport to represent income measures as defined under U.S. GAAP, and should not be used as alternatives to such measures as an indicator of our performance. These measures are provided to investors and others to improve the period-to-period comparability and peer-to-peer comparability of our financial results, and to ensure that investors understand the information we use to evaluate the performance of our businesses.

Adjusted EBIT has material limitations as an operating performance measure because it excludes costs related to Chapter 11 and asbestos and may exclude income and expenses from restructuring and repositioning activities and divested businesses, which historically have been material components of our net income. Adjusted EBITDA also has material limitations as an operating performance measure because it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of capital, and depreciation and amortization expense is a necessary element of our costs. We compensate for the limitations of these measurements by using these indicators together with net income as measured under U.S. GAAP to present a complete analysis of our results of operations. Adjusted EBIT and Adjusted EBITDA should be evaluated together with net income measured under U.S. GAAP for a complete understanding of our results of operations.

We have provided in the following tables a reconciliation of these non-GAAP measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.



Table of Contents

Analysis of Operations (In millions, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Net sales:						
Catalysts Technologies	\$285.3	\$329.3	(13.4 )%	\$855.6	\$927.0	(7.7 )%
Materials Technologies	200.9	229.1	(12.3 )%	605.4	685.0	(11.6 )%
Construction Products	303.9	298.0	2.0 %	831.8	826.9	0.6 %
Total Grace net sales	\$790.1	\$856.4	(7.7 )%	\$2,292.8	\$2,438.9	(6.0 )%
Net sales by region:						
North America	\$264.4	\$280.7	(5.8 )%	\$771.0	\$763.6	1.0 %
Europe Middle East Africa	246.9	280.8	(12.1 )%	724.6	845.5	(14.3 )%
Asia Pacific	172.3	199.5	(13.6 )%	534.6	554.5	(3.6 )%
Latin America	106.5	95.4	11.6 %	262.6	275.3	(4.6 )%
Total net sales by region	\$790.1	\$856.4	(7.7 )%	\$2,292.8	\$2,438.9	(6.0 )%
Profitability performance measures:						
Adjusted EBIT(A):						
Catalysts Technologies segment operating income	\$86.4	\$100.9	(14.4 )%	\$246.7	\$269.6	(8.5 )%
Materials Technologies segment operating income	46.4	48.7	(4.7 )%	133.1	143.9	(7.5 )%
Construction Products segment operating income	67.3	48.9	37.6 %	150.6	119.3	26.2 %
Corporate costs	(22.2 )	(23.8 )	6.7 %	(65.9 )	(69.1 )	4.6 %
Gain on termination and curtailment of postretirement plans related to current businesses	1.9	14.2	NM	1.9	18.9	NM
Certain pension costs(B)	(6.4 )	(8.0 )	20.0 %	(19.2 )	(24.3 )	21.0 %
Adjusted EBIT	173.4	180.9	(4.1 )%	447.2	458.3	(2.4 )%
Currency and other losses in Venezuela	(72.5 )	(1.0 )		(72.5 )	(1.0 )	
Repositioning expenses	(14.0 )	—		(34.3 )	—	
Restructuring expenses and asset impairments	(4.8 )	(5.4 )		(18.7 )	(17.8 )	
Pension MTM adjustment and other related costs, net	—	—		(4.7 )	4.8	
Gain on termination and curtailment of postretirement plans related to divested businesses	2.6	9.5		2.6	12.7	
Income and expense items related to divested businesses	0.7	(2.1 )		1.0	(6.8 )	
(Costs) benefit related to Chapter 11 and asbestos, net	(6.1 )	(4.7 )		0.9	(21.7 )	
Gain on sale of product line	—	—		—	0.2	
Interest expense, net	(25.4 )	(58.1 )	56.3 %	(75.2 )	(101.2 )	25.7 %
Provision for income taxes	(40.1 )	(44.6 )	10.1 %	(122.4 )	(66.7 )	(83.5 )%
Net income attributable to W. R. Grace & Co. shareholders	\$13.8	\$74.5	(81.5 )%	\$123.9	\$260.8	(52.5 )%
Diluted EPS (GAAP)	\$0.19	\$0.99	(80.8 )%	\$1.69	\$3.40	(50.3 )%
Adjusted EPS (non-GAAP)	\$1.37	\$1.07	28.0 %	\$3.38	\$3.06	10.5 %



Table of Contents

Analysis of Operations (In millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change	2015	2014	% Change
Adjusted profitability performance measures:						
Adjusted Gross Margin:						
Catalysts Technologies	43.4	% 42.5	% 0.9 pts	41.9	% 41.8	% 0.1 pts
Materials Technologies	38.1	% 35.3	% 2.8 pts	36.8	% 35.1	% 1.7 pts
Construction Products	41.2	% 36.8	% 4.4 pts	38.8	% 35.9	% 2.9 pts
Adjusted Gross Margin	41.2	% 38.6	% 2.6 pts	39.4	% 37.9	% 1.5 pts
Loss in Venezuela in cost of goods sold	(1.5 )	% —	% NM	(0.5 )	% —	% NM
Pension costs in cost of goods sold	(0.2 )	% (0.3 )	% 0.1 pts	(0.5 )	% (0.3 )	% (0.2) pts
Total Grace	39.5	% 38.3	% 1.2 pts	38.4	% 37.6	% 0.8 pts
Adjusted EBIT:						
Catalysts Technologies	\$86.4	\$100.9	(14.4 )%	\$246.7	\$269.6	(8.5 )%
Materials Technologies	46.4	48.7	(4.7 )%	133.1	143.9	(7.5 )%
Construction Products	67.3	48.9	37.6 %	150.6	119.3	26.2 %
Corporate	(26.7 )	(17.6 )	(51.7 )%	(83.2 )	(74.5 )	(11.7 )%
Total Grace	173.4	180.9	(4.1 )%	447.2	458.3	(2.4 )%
Depreciation and amortization:						
Catalysts Technologies	\$17.1	\$16.7	2.4 %	\$51.2	\$49.7	3.0 %
Materials Technologies	6.9	8.2	(15.9 )%	21.7	24.3	(10.7 )%
Construction Products	7.0	7.6	(7.9 )%	21.7	23.0	(5.7 )%
Corporate	1.7	1.8	(5.6 )%	4.9	5.3	(7.5 )%
Total Grace	32.7	34.3	(4.7 )%	99.5	102.3	(2.7 )%
Adjusted EBITDA:						
Catalysts Technologies	\$103.5	\$117.6	(12.0 )%	\$297.9	\$319.3	(6.7 )%
Materials Technologies	53.3	56.9	(6.3 )%	154.8	168.2	(8.0 )%
Construction Products	74.3	56.5	31.5 %	172.3	142.3	21.1 %
Corporate	(25.0 )	(15.8 )	(58.2 )%	(78.3 )	(69.2 )	(13.2 )%
Total Grace	206.1	215.2	(4.2 )%	546.7	560.6	(2.5 )%
Adjusted EBIT margin:						
Catalysts Technologies	30.3	% 30.6	% (0.3) pts	28.8	% 29.1	% (0.3) pts
Materials Technologies	23.1	% 21.3	% 1.8 pts	22.0	% 21.0	% 1.0 pts
Construction Products	22.1	% 16.4	% 5.7 pts	18.1	% 14.4	% 3.7 pts
Total Grace	21.9	% 21.1	% 0.8 pts	19.5	% 18.8	% 0.7 pts
Adjusted EBITDA margin:						
Catalysts Technologies	36.3	% 35.7	% 0.6 pts	34.8	% 34.4	% 0.4 pts
Materials Technologies	26.5	% 24.8	% 1.7 pts	25.6	% 24.6	% 1.0 pts
Construction Products	24.4	% 19.0	% 5.4 pts	20.7	% 17.2	% 3.5 pts
Total Grace	26.1	% 25.1	% 1.0 pts	23.8	% 23.0	% 0.8 pts

Table of Contents

Analysis of Operations (In millions)	Four Quarters Ended September 30,	
	2015	2014
Calculation of Adjusted EBIT Return On Invested Capital (trailing four quarters):		
Adjusted EBIT	\$615.1	\$596.9
Invested Capital:		
Trade accounts receivable	455.2	527.3
Inventories	323.1	337.3
Accounts payable	(262.3 )	(298.5 )
	516.0	566.1
Other current assets (excluding income taxes)	65.2	87.4
Properties and equipment, net	813.9	826.4
Goodwill	439.9	460.2
Technology and other intangible assets, net	265.7	296.2
Investment in unconsolidated affiliate	112.1	108.8
Other assets (excluding capitalized financing fees)	25.9	24.3
Other current liabilities (excluding income taxes, environmental remediation related to asbestos and divested businesses, Chapter 11, restructuring, repositioning and accrued interest)	(257.8 )	(265.6 )
Other liabilities (excluding environmental remediation related to asbestos and divested businesses)	(75.6 )	(93.3 )
Total invested capital	\$1,905.3	\$2,010.5
Adjusted EBIT Return On Invested Capital	32.3 %	29.7 %

Amounts may not add due to rounding.

(A) Grace's segment operating income includes only Grace's share of income of consolidated and unconsolidated joint ventures.

Certain pension costs include only ongoing costs recognized quarterly, which include service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits. Catalysts Technologies, Materials Technologies, and Construction Products segment operating income and corporate costs do not include any amounts for pension expense. Other pension related costs including annual mark-to-market adjustments and (B) actuarial gains and losses are excluded from Adjusted EBIT. These amounts are not used by management to evaluate the performance of Grace's businesses and significantly affect the peer-to-peer and period-to-period comparability of our financial results. Mark-to-market adjustments and actuarial gains and losses relate primarily to changes in financial market values and actuarial assumptions and are not directly related to the operation of Grace's businesses.

NM—Not Meaningful

Table of Contents

## Grace Overview

Following is an overview of our financial performance for the third quarter and nine months compared with the corresponding prior-year periods.

## Net Sales and Gross Margin

The following tables identify the year-over-year increase or decrease in sales attributable to changes in sales volume and/or mix, product price, and the impact of currency translation.

Three Months Ended September 30, 2015  
as a Percentage Increase (Decrease) from  
Three Months Ended September 30, 2014

Net Sales Variance Analysis	Volume		Price		Currency Translation		Total	
Catalysts Technologies	(8.2	)%	(0.4	)%	(4.8	)%	(13.4	)%
Materials Technologies	(5.1	)%	1.6	%	(8.8	)%	(12.3	)%
Construction Products	4.9	%	3.5	%	(6.4	)%	2.0	%
Net sales	(2.8	)%	1.5	%	(6.4	)%	(7.7	)%
By Region:								
North America	(5.1	)%	(0.2	)%	(0.5	)%	(5.8	)%
Europe Middle East Africa	1.9	%	0.3	%	(14.3	)%	(12.1	)%
Asia Pacific	(7.8	)%	(1.0	)%	(4.8	)%	(13.6	)%
Latin America	0.5	%	14.9	%	(3.8	)%	11.6	%

Sales for the third quarter decreased 7.7% compared with the prior-year quarter. The sales decrease was due to unfavorable currency translation (-6.4%) and lower sales volumes (-2.8%), partially offset by improved pricing (+1.5%). As the dollar remained strong against the euro and other global currencies compared with the prior-year quarter, unfavorable translation impacted all operating segments, primarily in Europe. These impacts were partially offset by improved pricing in Materials Technologies and improved pricing and sales volumes in Construction Products. Construction Products experienced sales volume growth in North America and Emerging Asia (excluding China) and the Middle East. These gains were offset by volume declines in Europe, China and Brazil reflecting weak demand conditions in these markets. Net sales of our Venezuelan subsidiary were \$41.5 million compared with \$12.3 million for the prior-year quarter. In the third quarter, we were temporarily able to import a significant amount of raw materials into Venezuela, leading to a significant increase in sales and earnings that is not expected to continue. The remaining assets and liabilities, as well as future sales, earnings and cash



Table of Contents

flows of our Venezuelan subsidiary will be immaterial after September 30, 2015, based on our actions in the third quarter. See "—Venezuela" below for further discussion.

Adjusted Gross Margin increased 260 basis points to 41.2% for the third quarter from 38.6% for the prior-year quarter primarily due to improved pricing, productivity and lower manufacturing costs.

Net Sales Variance Analysis	Nine Months Ended September 30, 2015 as a Percentage Increase (Decrease) from Nine Months Ended September 30, 2014				
	Volume	Price	Currency Translation	Total	
Catalysts Technologies	(2.3	)% (0.1	)% (5.3	)% (7.7	)%
Materials Technologies	(3.5	)% 1.1	% (9.2	)% (11.6	)%
Construction Products	4.8	% 2.1	% (6.3	)% 0.6	%
Net sales	(0.3	)% 1.0	% (6.7	)% (6.0	)%
By Region:					
North America	1.0	% 0.4	% (0.4	)% 1.0	%
Europe Middle East Africa	0.4	% 0.1	% (14.8	)% (14.3	)%
Asia Pacific	0.2	% (0.3	)% (3.5	)% (3.6	)%
Latin America	(6.1	)% 7.7	% (6.2	)% (4.6	)%

Sales for the nine months decreased 6.0% overall compared with the prior-year period. The sales decrease was due to unfavorable currency translation (-6.7%) and lower sales volumes (-0.3%) partially offset by improved pricing (+1.0%). Unfavorable currency translation against the dollar, primarily in Europe, impacted all operating segments.

Net sales of our Venezuelan subsidiary were \$68.6 million compared with \$34.4 million for the prior-year period.

Adjusted Gross Margin increased 150 basis points to 39.4% for the nine months from 37.9% for the prior-year period due to lower manufacturing costs, including lower raw material costs which had a positive effect of approximately 70 basis points; improved pricing in Materials Technologies and Construction Products; and improved product mix in Construction Products.

## Adjusted EBIT

Adjusted EBIT was \$173.4 million for the third quarter, a decrease of 4.1% compared with the prior-year quarter. The prior-year quarter included a gain of \$14.2 million related to the termination of certain retiree benefit plans. The third quarter includes unfavorable currency translation, partially offset by improved pricing. Adjusted EBIT for our Venezuelan subsidiary was \$22.8 million compared with \$4.4 million for the prior-year quarter.

Table of Contents

Adjusted EBIT was \$447.2 million for the nine months, a decrease of 2.4% compared with the prior-year period. The decrease was primarily due to unfavorable currency translation in the nine months and a gain related to the termination of certain retiree benefit plans in the prior-year period, partially offset by improved pricing. Adjusted EBIT for our Venezuelan subsidiary was \$28.7 million compared with \$12.7 million for the prior-year period.

**Grace Net Income**

Grace net income was \$13.8 million for the third quarter, a decrease of 81.5% compared with \$74.5 million for the prior-year quarter. The decrease was primarily due to a pre-tax charge of \$72.5 million associated with our operations in Venezuela and repositioning expenses, partially offset by lower net interest expense.

Grace net income was \$123.9 million for the nine months, a decrease of 52.5% compared with \$260.8 million for the prior-year period. The decrease was primarily due to a pre-tax charge of \$72.5 million associated with our operations in Venezuela, a higher provision for income taxes, and repositioning expenses, partially offset by lower interest expense.

**Adjusted EPS**

The following table reconciles our Diluted EPS (GAAP) to our Adjusted EPS (non-GAAP):

(In millions, except per share amounts)	Three Months Ended September 30,							
	2015				2014			
	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
Diluted Earnings Per Share (GAAP)				\$0.19				\$0.99
Currency and other losses in Venezuela(1)	\$72.5	\$9.3	\$63.2	0.87	\$1.0	\$—	\$1.0	0.01
Repositioning expenses(2)	14.0	(5.9 )	19.9	0.27	—	—	—	—
Costs related to Chapter 11 and asbestos, net	6.1	2.3	3.8	0.05	4.7	(0.3 )	5.0	0.07
Restructuring expenses and asset impairments	4.8	1.9	2.9	0.04	5.4	3.5	1.9	0.03
Gain on termination and curtailment of postretirement plans related to divested businesses	(2.6 )	(1.0 )	(1.6 )	(0.02 )	(9.5 )	(3.7 )	(5.8 )	(0.08 )
Income and expense items related to divested businesses	(0.7 )	(0.3 )	(0.4 )	(0.01 )	2.1	2.4	(0.3 )	—
Discrete tax items:								
Discrete tax items, including adjustments to uncertain tax positions		1.8	(1.8 )	(0.02 )		(4.1 )	4.1	0.05
Adjusted EPS (non-GAAP)				\$1.37				\$1.07

(1)Includes the tax effect of the non-deductible Venezuela charge on the annualized effective tax rate.

(2)Includes incremental tax charges directly related to the separation.

Table of Contents

(In millions, except per share amounts)	Nine Months Ended September 30, 2015				2014			
	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
Diluted Earnings Per Share (GAAP)				\$1.69				\$3.40
Currency and other losses in Venezuela <sup>(1)</sup>	\$72.5	\$9.3	\$63.2	0.86	\$1.0	\$—	\$1.0	0.01
Repositioning expenses <sup>(2)</sup>	34.3	(3.4 )	37.7	0.52	—	—	—	—
Restructuring expenses and asset impairments	18.7	6.3	12.4	0.17	17.8	7.5	10.3	0.13
Pension MTM adjustment and other related costs, net	4.7	1.7	3.0	0.04	(4.8 )	(1.8 )	(3.0 )	(0.04 )
Gain on termination and curtailment of postretirement plans related to divested businesses	(2.6 )	(1.0 )	(1.6 )	(0.02 )	(12.7 )	(4.8 )	(7.9 )	(0.10 )
Income and expense items related to divested businesses	(1.0 )	(0.4 )	(0.6 )	(0.01 )	6.8	2.5	4.3	0.06
(Benefit) costs related to Chapter 11 and asbestos, net	(0.9 )	(0.3 )	(0.6 )	(0.01 )	21.7	5.9	15.8	0.21
Gain on sale of product line	—	—	—	—	(0.2 )	(0.1 )	(0.1 )	—
Discrete tax items:								
Discrete tax items, including adjustments to uncertain tax positions		(10.4 )	10.4	0.14		47.1	(47.1 )	(0.61 )
Adjusted EPS (non-GAAP)				\$3.38				\$3.06

(1)Includes the tax effect of the non-deductible Venezuela charge on the annualized effective tax rate.

(2)Includes incremental tax charges directly related to the separation.

#### Adjusted EBIT Return On Invested Capital

Adjusted EBIT Return On Invested Capital for the third quarter increased to 32.3% on a trailing four quarters basis from 29.7% on the same basis for the prior-year period. The increase was primarily due to earnings growth and improved working capital management. We manage our operations with the objective of maximizing sales, earnings and cash flow over time. Doing so requires that we successfully balance our growth, profitability and working capital and other investments to support sustainable, long-term financial performance. We use Adjusted EBIT Return On Invested Capital as a performance measure in evaluating operating results, in making operating and investment decisions and in balancing the growth and profitability of our operations. Generally, we favor those businesses and investments that provide the highest return on invested capital.

Table of Contents

Operating Segment Overview—Grace Catalysts Technologies

Following is an overview of the financial performance of Catalysts Technologies for the third quarter and nine months compared with the corresponding prior-year periods.

Net Sales—Grace Catalysts Technologies

Sales were \$285.3 million for the third quarter, a decrease of 13.4% from the prior-year quarter. The decrease was due to lower sales volumes (-8.2%), unfavorable currency translation (-4.8%), and lower pricing (-0.4%). Refining catalyst sales volumes were lower primarily due to the timing of customer transitions, including customer trials, in preparation for new sales volumes in the 2015 fourth quarter and 2016. We expect these customer transitions to continue into 2016. Specialty Catalysts sales volumes were lower primarily due to customer order timing.

Sales were \$855.6 million for the nine months, a decrease of 7.7% compared with the prior-year period. The decrease was due to unfavorable currency translation (-5.3%), lower sales volumes (-2.3%), and lower pricing (-0.1%).

Decreased refining catalyst sales volumes were partially offset by increased sales volumes in Specialty Catalysts.

Segment Operating Income (SOI) and Margin—Grace Catalysts Technologies

Table of Contents

Gross profit was \$123.9 million for the third quarter, a decrease of 11.5% from the prior-year quarter. Adjusted Gross Margin increased to 43.4% from 42.5% for the prior-year quarter. Gross profit decreased primarily due to unfavorable currency translation and lower sales volumes, partially offset by lower manufacturing costs, including lower raw materials costs. Adjusted Gross Margin increased primarily due to lower manufacturing costs, including 90 basis points from lower rare earth costs.

Operating income was \$86.4 million for the third quarter, a decrease of 14.4% from the prior-year quarter. The decrease was primarily due to lower gross profit and reduced earnings from the ART joint venture partially offset by lower operating expenses. The ART joint venture contributed \$3.6 million to operating income, a decrease of \$2.8 million from the prior-year quarter. Operating margin for the third quarter decreased by 30 basis points to 30.3%.

Gross profit was \$358.2 million for the nine months, a decrease of 7.6% from the prior-year period. Adjusted Gross Margin increased to 41.9% from 41.8% for the prior-year period. Gross profit decreased primarily due to unfavorable currency translation, lower refining catalyst sales volumes, and lower licensing sales, partially offset by lower manufacturing costs, including lower raw materials costs. Adjusted Gross Margin increased primarily due to lower manufacturing costs, including 80 basis points from lower raw materials costs.

Operating income was \$246.7 million for the nine months, a decrease of 8.5% compared with the prior-year period. The decrease was primarily due to lower gross profit and lower earnings from the ART joint venture partially offset by lower operating expenses. The ART joint venture contributed \$12.1 million to operating income, a decrease of \$1.1 million from the prior-year period. Operating margin for the nine months decreased by 30 basis points to 28.8%.

**Operating Segment Overview—Grace Materials Technologies**

Following is an overview of the financial performance of Materials Technologies for the third quarter and nine months compared with the corresponding prior-year periods.

**Net Sales—Grace Materials Technologies**

Sales were \$200.9 million for the third quarter, a decrease of 12.3% compared with the prior-year quarter. The decrease was due to unfavorable currency translation (-8.8%) and lower sales volumes (-5.1%), partially offset by improved pricing (+1.6%). Unfavorable currency translation, primarily in Europe and Latin America, affected both engineered materials and packaging products as the dollar strengthened against the euro and other currencies.

Unfavorable currency translation in Latin America was partially offset by price increases in that region. Sales volumes decreased primarily due to customer order patterns in North America and weak demand in the emerging regions, partially offset by increased sales volumes in Europe.

Table of Contents

Sales were \$605.4 million for the nine months, a decrease of 11.6% compared with the prior-year period. The decrease was due to unfavorable currency translation (-9.2%) and lower sales volumes (-3.5%), partially offset by improved pricing (+1.1%). Unfavorable currency translation, primarily in Europe and the emerging regions, affected both engineered materials and packaging products as the dollar strengthened against the euro and other currencies. Unfavorable currency translation in Latin America was partially offset by price increases in that region. Sales volumes decreased in all regions except EMEA in both product groups.

Segment Operating Income (SOI) and Margin—Grace Materials Technologies

Gross profit was \$76.5 million for the third quarter, a decrease of 5.4% from the prior-year quarter. Adjusted Gross Margin was 38.1% compared with 35.3% for the prior-year quarter. Excluding Venezuela, Adjusted Gross Margin was 37.2%. The increase was primarily due to lower manufacturing costs and improved pricing.

Operating income was \$46.4 million for the third quarter, a decrease of 4.7% from the prior-year quarter. The benefit of improved gross margin was more than offset by lower sales volumes and unfavorable currency translation.

Operating margin for the third quarter was 23.1%, an increase of 180 basis points from the prior-year quarter. The increase in inflation in Venezuela added an estimated \$2-\$3 million to segment operating income for the third quarter.

Gross profit was \$223.0 million for the nine months, a decrease of 7.2% from the prior-year period. Adjusted Gross Margin was 36.8% compared with 35.1% for the prior-year period. The gross profit decrease was primarily due to unfavorable currency translation and lower sales volumes, partially offset by lower manufacturing costs, including lower raw materials costs. Adjusted Gross Margin increased primarily due to lower manufacturing costs and improved pricing, including 90 basis points from lower raw materials costs.

Operating income was \$133.1 million for the nine months, a decrease of 7.5% compared with the prior-year period, primarily due to lower gross profit. Operating margin for the nine months was 22.0%, an increase of 100 basis points from the prior-year period.

Table of Contents

Operating Segment Overview—Grace Construction Products

Following is an overview of the financial performance of Construction Products for the third quarter and nine months compared with the corresponding prior-year periods.

Net Sales—Grace Construction Products

Sales were \$303.9 million for the third quarter, an increase of +2.0% compared with the prior-year quarter. The increase was due to higher sales volumes (+4.9%) and improved pricing (+3.5%), partially offset by unfavorable currency translation (-6.4%). SCC and SBM sales volumes increased 5.3% and 4.2%, respectively. Segment sales volumes grew approximately 5% in North America and double digits in emerging Asia (excluding China) and the Middle East.

Sales were \$831.8 million for the nine months, an increase of 0.6% compared with the prior-year period. The increase was due to higher sales volumes (+4.8%) and improved pricing (+2.1%), partially offset by unfavorable currency translation (-6.3%). Unfavorable currency translation affected sales of both product groups with the largest effects in Europe and Latin America as the dollar strengthened against the euro and other currencies. Sales volumes increased in both product groups in North America and Asia Pacific due to increased demand. SCC sales volumes decreased in Europe due to weaker demand. Pricing improved primarily in SCC in Latin America where it partially offset unfavorable currency translation in that region.

Segment Operating Income (SOI) and Margin—Grace Construction Products

Table of Contents

Gross profit was \$125.3 million for the third quarter, an increase of 14.1% from the prior-year quarter. Adjusted Gross Margin was 41.2% for the third quarter compared with 36.8% for the prior-year quarter. Excluding Venezuela, Adjusted Gross Margin was 38.8%. The increase was primarily due to improved pricing, higher sales volumes and favorable product mix.

Operating income was \$67.3 million for the third quarter, an increase of 37.6% compared with the prior-year quarter. The increase was primarily due to higher gross profit and lower operating expenses. Operating margin for the third quarter was 22.1%, an improvement of 570 basis points compared with the prior-year quarter. The increase in inflation in Venezuela added an estimated \$5-\$6 million to segment operating income.

Gross profit was \$322.4 million for the nine months, an increase of 8.5% compared with the prior-year period. Adjusted Gross Margin increased to 38.8% compared with 35.9% for the prior-year period. Gross profit and gross margin increased due to improved product mix and improved pricing.

Operating income was \$150.6 million for the nine months, an increase of 26.2% compared with the prior-year period. The increase was primarily due to increased gross profit, partially offset by higher operating expenses. Operating margin for the nine months was 18.1%, an improvement of 370 basis points compared with the prior-year period.

Corporate Overview

Corporate costs include corporate functional costs and other corporate costs such as professional fees and insurance premiums. Corporate costs for the third quarter and nine months decreased \$1.6 million and \$3.2 million, respectively, from the corresponding prior-year periods.

We expect corporate costs in the 2015 fourth quarter to be in the range of \$12 million to \$15 million, including the benefit of the sale of certain operating assets.

Defined Benefit Pension Expense

Certain pension costs for the third quarter and nine months were \$6.4 million and \$19.2 million compared with \$8.0 million and \$24.3 million for the corresponding prior-year periods. The decreases were primarily due to lower interest costs.



Table of Contents

## Repositioning Expenses

In the third quarter and nine months, we incurred repositioning expenses of \$14.0 million and \$34.3 million primarily related to our planned separation into two independent companies.

(In millions)	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Professional fees	\$10.4	\$26.5
Employee-related costs	3.6	7.8
Total	\$14.0	\$34.3

We are spending a significant amount of time and money to complete the separation transaction. We exclude from Adjusted EBIT specific third party costs of advisors, attorneys and accountants that are assisting us with the separation. We have also excluded certain internal costs that we would not have spent in 2015 absent the separation. These internal costs primarily include compensation, benefits, severance costs, and specific costs related to the separation.

## Interest and Financing Expenses

Net interest and financing expenses were \$25.4 million and \$75.2 million for the third quarter and nine months, decreases of 56.3% and 25.7% compared with the corresponding prior-year periods, primarily due to reduced interest accretion on deferred payment obligations due to the settlement of the PI deferred payment obligation during the 2014 third quarter, partially offset by interest on new debt incurred during 2014 and 2015.

## Income Taxes

The income tax provision at the U.S. federal corporate rate of 35% for the nine months and the prior-year period would have been \$86.4 million and \$115.0 million, respectively. The primary differences between these amounts and the recorded provision for income taxes of \$122.4 million and \$66.7 million, respectively, are, in the current period, adjustments related to costs associated with the separation transaction and the tax effect of the nondeductible charge related to Venezuela and, in the prior-year period, a benefit for the release of reserves related to uncertain tax positions.

We generated approximately \$1,800 million in U.S. federal tax deductions relating to our emergence from bankruptcy, including approximately \$670 million relating to payments made upon emergence, \$632 million upon payment of the PI deferred payment obligation, and \$490 million upon repurchase of the warrant held by the PI Trust. These deductions generated U.S. federal and state NOLs in 2014 and 2015 which we will carry forward and expect to utilize in subsequent years. Under U.S. federal income tax law, a corporation is generally permitted to carry forward NOLs for a 20-year period for deduction against future taxable income. We also expect to generate U.S. federal tax deductions of \$30 million upon payment of the ZAI PD deferred payment obligation in 2017. The present value of the expected settlement amount has already been recorded as a deferred tax asset for temporary differences. (See Note 8 for Chapter 11 information.)

We pay cash taxes in foreign jurisdictions and a limited number of states. Income taxes paid in cash, net of refunds, were \$34.2 million for the nine months, or approximately 14% of income before income taxes. Our annual cash tax rate is expected to be approximately 15% including estimated tax costs related to the separation.

As part of the separation plan, we are restructuring certain legal entities. The process of analyzing the tax consequences of the legal entity separation and restructuring is ongoing and includes determining the required tax liability to be reported. In the third quarter, the calculation of the annualized effective tax rate includes approximately \$8 million of tax expense associated with the restructuring of foreign subsidiaries.

As of December 31, 2014, we had the intent and ability to indefinitely reinvest undistributed earnings of our foreign subsidiaries outside the United States. In the 2015 first quarter, we announced our plan to separate into two publicly traded companies and have reassessed the capital structure and financial requirements of both Grace and GCP. In the 2015 second quarter, we determined that we will repatriate approximately \$131 million of foreign earnings in advance of the separation. Such amount was determined based on an analysis of each non-U.S. subsidiary's requirements for working capital, debt repayment and strategic initiatives. We also considered local country legal and regulatory restrictions. In the 2015 second quarter, we included tax expense of



Table of Contents

approximately \$5 million in our annualized effective tax rate for repatriation attributable to current earnings and tax expense of approximately \$11 million as a discrete charge for repatriation attributable to prior years' earnings. The tax effect of the repatriation is determined by several variables including the tax rate applicable to the entity making the distribution, the cumulative earnings and associated foreign taxes of the entity and the extent to which those earnings may have already been taxed in the U.S.

Grace and GCP continue to assess their capital structures, financial requirements and ability to repatriate available cash as part of the separation, which may result in additional repatriation prior to the separation. The tax consequences of additional repatriation as well as other transactions pursuant to the separation, may require recognition of additional tax expense for actual or deemed repatriation of undistributed earnings of our foreign subsidiaries. We believe that the separation is a one-time, non-recurring event, and such recognition of deferred taxes of undistributed earnings would not have occurred if not for the separation. Beyond the separation, we expect undistributed prior-year earnings of our foreign subsidiaries to remain permanently reinvested except in certain instances where repatriation of such earnings would result in minimal or no tax. We base this assertion on:

- (1) the expectation that we will satisfy our U.S. cash obligations in the foreseeable future without requiring the repatriation of prior-year foreign earnings;
- (2) plans for significant and continued reinvestment of foreign earnings in organic and inorganic growth initiatives outside the U.S.; and
- (3) remittance restrictions imposed by local governments.

We will continually analyze and evaluate our cash needs to determine the appropriateness of our indefinite reinvestment assertion.

See Note 5 to the Consolidated Financial Statements for additional information regarding income taxes.

#### Financial Condition, Liquidity, and Capital Resources

Following is an analysis of our financial condition, liquidity and capital resources at September 30, 2015.

Our principal uses of cash are generally capital investments and acquisitions, working capital investments, contributions to our defined benefit pension plans, and the repayment of debt. We also repurchase shares of our common stock. In January 2015, we completed the initial \$500 million share repurchase program authorized by our Board of Directors following emergence from bankruptcy. The Board of Directors has authorized an additional share repurchase program of up to \$500 million. Under these programs, during the nine months we repurchased 2,263,121 shares of Company common stock for \$220.1 million.

We believe that the cash we expect to generate during 2015 and thereafter, together with other available liquidity and capital resources, are sufficient to finance our operations, growth strategy, and share repurchase program, and meet our debt and pension obligations.

On February 5, 2015, we announced that the Grace Board of Directors had approved a plan to separate Grace into two independent, publicly traded companies. Prior to the separation, we plan to raise new debt capital at GCP and repay a substantial amount of the borrowings under the Credit Agreement. We expect that the Senior Notes and Credit Agreement will remain with Grace but the Credit Agreement will require an amendment to permit the separation. We expect that the anticipated combined leverage of the two companies will be similar to existing Grace.

#### Cash Resources and Available Credit Facilities

At September 30, 2015, we had available liquidity of \$766.1 million, consisting of \$331.1 million in cash and cash equivalents (\$83.2 million in the U.S.), \$344.1 million available under our revolving credit facility, and \$90.9 million of available liquidity under various non-U.S. credit facilities. The \$400 million revolving credit facility includes a \$150 million sublimit for letters of credit.

Our non-U.S. credit facilities are extended to various subsidiaries that use them primarily to issue bank guarantees supporting trade activity and to provide working capital during occasional cash shortfalls. Our credit facility in Germany is secured by third-party accounts receivable, with availability determined on the basis of eligible outstanding receivables. We generally renew these credit facilities as they expire.



Table of Contents

The following table summarizes our non-U.S. credit facilities as of September 30, 2015:

(In millions)	Maximum Borrowing Amount	Available Liquidity	Expiration Date
Germany	\$55.9	\$5.5	12/31/2015
Other countries	128.8	85.4	Various through 2016
Total	\$184.7	\$90.9	

## Analysis of Cash Flows

The following table summarizes our cash flows for the nine months and prior-year period:

(In millions)	Nine Months Ended September 30,	
	2015	2014
Net cash used for operating activities	\$(80.8 )	\$(1,636.4 )
Net cash (used for) provided by investing activities	(114.1 )	279.4
Net cash provided by financing activities	25.0	1,009.9
Effect of currency exchange rate changes on cash and cash equivalents	(56.5 )	(9.7 )
Decrease in cash and cash equivalents	(226.4 )	(356.8 )
Cash and cash equivalents, beginning of period	557.5	964.8
Cash and cash equivalents, end of period	\$331.1	\$608.0

Net cash used for operating activities for the nine months was \$80.8 million, compared with \$1,636.4 million for the prior-year period. Through the 2014 third quarter, we paid \$1,315.6 million in connection with our emergence from Chapter 11 and \$632.0 million to settle the deferred payment obligation to the PI Trust. In the 2015 first quarter, we paid \$490.0 million to repurchase the warrant issued at emergence.

Net cash used for investing activities for the nine months was \$114.1 million, compared with net cash provided by investing activities of \$279.4 million for the prior-year period. In the 2014 first quarter, we transferred \$395.4 million from restricted cash and cash equivalents to cash in connection with our emergence from Chapter 11.

Net cash provided by financing activities for the nine months was \$25.0 million, compared with \$1,009.9 million in the prior-year period. The year-over-year change in cash flow was primarily due to higher net borrowings under credit arrangements in the 2014 first quarter and the issuance of bonds in the 2014 third quarter, partially offset by higher cash paid for repurchases of common stock through the 2014 third quarter.

Included in net cash used for operating activities are Chapter 11 and asbestos expenses paid of \$493.8 million and \$1,376.8 million, restructuring expenses paid of \$12.1 million and \$4.8 million, and cash paid for legacy items of \$8.6 million and \$4.6 million for the nine months and prior-year period, respectively; repositioning expenses paid of \$18.6 million in the nine months, and accelerated defined benefit pension plan contributions of \$75.0 million and payment for the deferred payment obligation related to the PI Trust of \$632.0 million in the prior-year period. Included in capital expenditures are \$3.0 million related to repositioning for the nine months. These cash flows totaled \$536.1 million and \$2,093.2 million for the nine months and prior-year period, respectively. We do not include these cash flows when evaluating the performance of our businesses.

## Debt and Other Contractual Obligations

Total debt outstanding at September 30, 2015, was \$2,215.8 million. On January 30, 2015, we borrowed on the \$250 million delayed draw term loan facility and used the funds, together with cash on hand, to repurchase the warrant issued to the PI Trust for a cash payment of \$490 million.

See Note 8 to the Consolidated Financial Statements for a discussion of Financial Assurances.

Table of Contents

## Employee Benefit Plans

See Note 6 to the Consolidated Financial Statements for further discussion of Pension Plans and Other Postretirement Benefit Plans.

## Defined Benefit Pension Plans

The following table presents the components of cash contributions for the advance-funded and pay-as-you-go plans:

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
U.S. advance-funded plans	\$—	\$—	\$—	\$75.0
U.S. pay-as-you-go plans(1)	1.7	1.8	5.2	5.1
Non-U.S. advance-funded plans	1.0	1.2	2.4	7.1
Non-U.S. pay-as-you-go plans	1.9	2.0	5.6	6.9
Total Cash Contributions	\$4.6	\$5.0	\$13.2	\$94.1

(1) Excludes benefit payments of approximately \$28 million which were paid in 2014 from a U.S. nonqualified pension plan in connection with our emergence from bankruptcy.

We intend to fund non-U.S. pension plans based upon applicable legal requirements and actuarial and trustee recommendations. We contributed \$8.0 million to these plans during the nine months compared with \$14.0 million during the prior-year period.

## Postretirement Benefits Other Than Pensions

We have provided postretirement health care and life insurance benefits for retired employees of certain U.S. business units and certain divested business units. These plans are unfunded, and we pay the costs of benefits under these plans as they are incurred. Our share of the net cost of benefits under this program for the third quarter and nine months was \$0.1 million and \$1.1 million, respectively, compared with \$0.7 million and \$2.9 million for the corresponding prior-year periods. We received Medicare subsidy payments of \$1.0 million during the nine months and \$0.2 million during the prior-year period. Our recorded liability for postretirement benefits is \$1.7 million as of September 30, 2015.

In June 2014, we announced that we would discontinue our postretirement medical plan for all U.S. employees effective October 31, 2014, and eliminate certain postretirement life insurance benefits. As a result of these actions, we recognized a gain of \$41.9 million in other comprehensive income in the 2014 second quarter. We amortized \$39.5 million from accumulated other comprehensive income into the Consolidated Statement of Operations during the five-month period from June to October 2014. The gain attributable to our current businesses is included in Adjusted EBIT for the 2014 second, third, and fourth quarters, and the portion attributable to divested businesses is excluded from Adjusted EBIT.

The postretirement plan was further remeasured as of September 30, 2015, due to a plan amendment to eliminate certain postretirement life insurance benefits, which resulted in a curtailment gain of \$4.5 million. The gain attributable to our current businesses of \$1.9 million is included in Adjusted EBIT, and the portion attributable to divested businesses of \$2.6 million is excluded from Adjusted EBIT.

## Other Contingencies

See Note 8 to the Consolidated Financial Statements for a discussion of our other contingent matters.

## Inflation

We recognize that inflationary pressures may have an adverse effect on us through higher asset replacement costs and higher raw materials and other operating costs. We try to minimize these impacts through effective control of operating expenses and productivity improvements as well as price increases to customers.

Table of Contents

We estimate that the cost of replacing our property and equipment today is greater than its historical cost. Accordingly, our depreciation expense would be greater if the expense were stated on a current cost basis.

Venezuela

Effective January 1, 2010, we began to account for Venezuela as a highly inflationary economy. As a result, the functional currency of our Venezuelan subsidiary became the U.S. dollar; therefore, all translation adjustments are reflected in net income in the accompanying Consolidated Statements of Operations. The official exchange rate of 4.3 was used to remeasure our financial statements from bolivars to U.S. dollars upon Venezuela's designation as a highly inflationary economy.

Effective February 13, 2013, the official exchange rate of the bolivar to the U.S. dollar devalued from 4.3 to 6.3. As a result of this currency devaluation, we incurred a charge to net income of \$8.5 million in the 2013 first quarter.

In March 2013, the Venezuelan government launched a new foreign exchange mechanism called the "Complimentary System of Foreign Currency Acquirement" (or SICAD1). The SICAD1 operated similarly to an auction system and allowed entities in specific sectors to bid for U.S. dollars to be used for specified import transactions. In March 2014, the Venezuelan government launched another foreign exchange mechanism, known as the SICAD2, which operated similarly to the SICAD1. Neither the SICAD1 nor the SICAD2 changed or eliminated the official exchange rate of the bolivar to the U.S. dollar. There have been no changes in the official exchange rate of the bolivar to the U.S. dollar since February 13, 2013. We continued to use the official exchange rate of 6.3 bolivars to U.S. dollars for remeasurement purposes.

In February 2015, the Venezuelan government unified SICAD1 and SICAD2 into a single exchange mechanism, which is now called SICAD. Additionally, a new exchange mechanism, SIMADI, was also implemented.

Materials Technologies and Construction Products have operated in Venezuela for several decades and had sales in that country of approximately 3% and 6%, respectively, of each segment's sales for the nine months.

Bolivar-denominated sales represented approximately 3% of our total sales for the nine months. In the 2014 first quarter, we began seeing a significant impact to our sales and earnings as a result of Venezuela's difficult economic conditions, and this trend has continued through the 2015 third quarter. It has become increasingly difficult for us and our customers to operate normally in the country as currency and import controls have impacted our ability to import necessary raw materials for production.

We have been unable to fully satisfy customer demand since the 2014 first quarter. In the 2015 third quarter, we were able to import a significant amount of raw materials at the official exchange rate, leading to a significant increase in sales and earnings that we do not expect to sustain in future periods. We also experienced a significant increase in inflation during the 2015 third quarter.

Based on developments in the third quarter, including changed expectations about our ability to import raw materials at the official exchange rate in the future and the increase in inflation, we determined that it is no longer appropriate to use the official exchange rate. Effective September 30, 2015, we are accounting for our results at the SIMADI rate. At September 30, 2015, this rate was 199 bolivars to U.S. dollar. We recorded a pre-tax charge of \$72.5 million in the third quarter to reflect the devaluation of monetary assets and the impairment of non-monetary assets, including \$40.5 million for cash, \$26.7 million for working capital and \$5.3 million for properties and equipment. Of this amount, \$11.7 million related to inventory was recorded in cost of goods sold, and \$60.8 million related to other assets and liabilities was recorded as a separate line in the Consolidated Statement of Operations. We will continue to operate in Venezuela; however, the remaining assets and liabilities, as well as future sales, earnings and cash flows of our Venezuelan subsidiary will be immaterial after September 30, 2015.

Table of Contents

The following table presents net sales, gross profit, and pre-tax income for our Venezuelan subsidiary for the third quarter and nine months and the respective prior-year periods.

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$41.5	\$12.3	\$68.6	\$34.4
Gross profit	25.2	5.4	34.6	15.3
Adjusted EBIT	22.8	4.4	28.7	12.7

**Critical Accounting Estimates**

See the "Critical Accounting Estimates" heading in Item 7 of our Form 10-K for the year ended December 31, 2014, for a discussion of our critical accounting estimates.

**Recent Accounting Pronouncements**

See Note 1 to the Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect on us.

**Forward Looking Statements**

This document contains, and our other public communications may contain, forward-looking statements, that is, information related to future, not past, events. Such statements generally include the words "believes," "plans," "intends," "targets," "will," "expects," "suggests," "anticipates," "outlook," "continues" or similar expressions. Forward-looking statements include, without limitation, expected financial positions; results of operations; cash flows; financing plans; business strategy; operating plans; capital and other expenditures; competitive positions; growth opportunities for existing products; benefits from new technology and cost reduction initiatives, plans and objectives; and markets for securities. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act. Like other businesses, we are subject to risks and uncertainties that could cause our actual results to differ materially from our projections or that could cause other forward-looking statements to prove incorrect. Factors that could cause actual events to materially differ from those contained in the forward-looking statements include, without limitation: risks related to foreign operations, especially in emerging regions; the cost and availability of raw materials and energy; the effectiveness of Grace's research and development and growth investments; acquisitions and divestitures of assets and gains and losses from dispositions; developments affecting Grace's outstanding indebtedness; developments affecting Grace's funded and unfunded pension obligations; Grace's legal and environmental proceedings; uncertainties that may delay or negatively impact the separation transaction or cause the separation transaction to not occur at all; uncertainties related to the Company's ability to realize the anticipated benefits of the separation transaction; the inability to establish or maintain certain business relationships and relationships with customers and suppliers or the inability to retain key personnel during the period leading up to and following the separation transaction; costs of compliance with environmental regulation, and those factors set forth in our most recent Annual Report on Form 10-K, this quarterly report on Form 10-Q and current reports on Form 8-K, which have been filed with the Securities and Exchange Commission and are readily available on the Internet at [www.sec.gov](http://www.sec.gov). Our reported results should not be considered as an indication of our future performance. Readers are cautioned not to place undue reliance on our projections and forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly release any revisions to the projections and forward-looking statements contained in this document, or to update them to reflect events or circumstances occurring after the date of this document.



Table of Contents

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

With respect to information disclosed in the "Quantitative and Qualitative Disclosures About Market Risk" section of our Annual Report on Form 10-K for the year ended December 31, 2014, more recent numerical measures and other information are available in the "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this Report. These more recent measures and information are incorporated herein by reference.

**Item 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

As of September 30, 2015, Grace carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, Grace's Chief Executive Officer and Chief Financial Officer concluded that Grace's disclosure controls and procedures are effective to ensure that information required to be disclosed in Grace's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that material information relating to Grace is made known to management, including Grace's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in Grace's internal control over financial reporting during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, Grace's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

Note 8 to the interim Consolidated Financial Statements in Part I of this Report is incorporated herein by reference.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this Report and below, you should carefully consider the risk factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. The risks described in this Report and in our Annual Report on Form 10-K are not the only risks facing Grace. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. With respect to certain risk factors discussed in our Annual Report on Form 10-K, more recent numerical measures and other information are available in the "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this Report. These more recent measures and information are incorporated herein by reference.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Share Repurchase Program**

On February 4, 2014, we announced that the Board of Directors had authorized a share repurchase program of up to \$500 million. This program was completed in January 2015. On February 5, 2015, we announced that the Board of Directors had authorized an additional share repurchase program of up to \$500 million. Repurchases under the program may be made through one or more open market transactions at prevailing market prices; unsolicited or solicited privately negotiated transactions; accelerated share repurchase programs; or through any combination of the foregoing, or in such other manner as determined by management. The timing of the repurchases and the actual amount repurchased will depend on a variety of factors, including the market price of the Company's shares, the strategic deployment of capital, and general market and economic conditions.

The following table presents information regarding the repurchase of Company common stock by Grace or any "affiliated purchaser" of Grace during the three months ended September 30, 2015:

	Total number of shares purchased (#)	Average price paid per share (\$/share)	Total number of shares purchased as part of publicly announced plans or programs (#)	Approximate dollar value of shares that may yet be purchased under the plans or programs (\$ in millions)
7/1/2015 - 7/31/2015	119,100	100.98	119,100	409.1
8/1/2015 - 8/31/2015	434,396	97.89	434,396	366.5
9/1/2015 - 9/30/2015	870,617	95.17	870,617	283.7
Total	1,424,113	96.49	1,424,113	

**Item 6. EXHIBITS**

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

- Are not statements of fact, but rather are used to allocate risk to one of the parties if the statements prove to be inaccurate;
- May have been qualified by disclosures that were made to the other parties in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;



Table of Contents

May apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

Were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and do not reflect more recent developments.

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

The following is a list of Exhibits filed as part of this Quarterly Report on Form 10-Q:

Exhibit No.	Description of Exhibit	Location
10	Severance Pay Plan for Salaried Employees	Filed herewith
15	Accountants' Awareness Letter	Filed herewith
31(i).1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(i).2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith

Table of Contents

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

W. R. GRACE & CO.  
(Registrant)

Date: 11/5/2015

By: /s/ A. E. FESTA  
A. E. Festa  
(Chairman and  
Chief Executive Officer)

Date: 11/5/2015

By: /s/ HUDSON LA FORCE III  
Hudson La Force III  
(Senior Vice President and  
Chief Financial Officer)

Date: 11/5/2015

By: /s/ WILLIAM C. DOCKMAN  
William C. Dockman  
(Vice President and Controller)

Table of Contents

## EXHIBIT INDEX

Exhibit No.	Description of Exhibit	Location
10	Severance Pay Plan for Salaried Employees	Filed herewith
15	Accountants' Awareness Letter	Filed herewith
31(i).1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(i).2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith