

W R GRACE & CO
Form 10-Q
May 08, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2009

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
(State of Incorporation)

65-0773649
(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)

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

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

Class	Outstanding at April 30, 2009
Common Stock, \$0.01 par value per share	72,159,318 shares

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Review by Independent Registered Public Accounting Firm

With respect to the interim consolidated financial statements included in this Quarterly Report on Form 10-Q for the three months ended March 31, 2009 and 2008, PricewaterhouseCoopers LLP, the company's independent registered public accounting firm, has applied limited procedures in accordance with professional standards for a review of such information. Their report on the interim consolidated financial statements, which follows, states that they did not audit and they do not express an opinion on the unaudited interim financial statements. Accordingly, the degree of reliance on their report on the unaudited interim financial statements should be restricted in light of the limited nature of the review procedures applied. This report is not considered a "report" within the meaning of Sections 7 and 11 of the Securities Act of 1933, and, therefore, the independent accountants' liability under Section 11 does not extend to it.

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of W.R. Grace & Co.:

We have reviewed the accompanying consolidated balance sheet of W.R. Grace & Co. and its subsidiaries as of March 31, 2009, and the related consolidated statements of operations, shareholders' equity (deficit), and comprehensive income (loss) for each of the three-month periods ended March 31, 2009 and 2008 and the consolidated statements of cash flows for the three-month periods ended March 31, 2009 and 2008. 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 interim consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2008, and the related consolidated statements of operations, shareholders' equity (deficit), comprehensive income (loss), and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2009, we expressed an unqualified opinion on those consolidated financial statements with an explanatory paragraph relating to the Company's ability to continue as a going concern. As discussed in Note 1 to the accompanying consolidated financial statements, the Company changed its method of accounting for noncontrolling interests. The accompanying December 31, 2008 consolidated balance sheet reflects this change.

/s/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
McLean, Virginia
May 8, 2009

Table of Contents**W. R. Grace & Co. and Subsidiaries****Consolidated Statements of Operations (unaudited)****(In millions, except per share amounts)**

	Three Months Ended March 31,	
	2009	2008
Net sales	\$ 682.1	\$ 759.2
Cost of goods sold	513.3	519.8
Selling, general and administrative expenses	149.7	142.8
Restructuring expenses	19.1	
Research and development expenses	18.6	21.7
Defined benefit pension expense	21.9	14.3
Interest expense and related financing costs	9.2	15.1
Provision for environmental remediation	0.7	5.9
Chapter 11 expenses, net of interest income	10.0	18.4
Other (income) expense, net	1.8	(17.3)
	744.3	720.7
Income (loss) before income taxes	(62.2)	38.5
Benefit from (provision for) income taxes	23.4	(17.9)
Net income (loss)	(38.8)	20.6
Less: Net income attributable to noncontrolling interests	(0.1)	(2.9)
Net income (loss) attributable to W. R. Grace & Co. shareholders	\$ (38.9)	\$ 17.7
Earnings Per Share Attributable to W. R. Grace & Co. Shareholders		
Basic earnings per share:		
Net income (loss)	\$ (0.54)	\$ 0.25
Weighted average number of basic shares	72.2	71.7
Diluted earnings per share:		
Net income (loss)	\$ (0.54)	\$ 0.24
Weighted average number of diluted shares	72.2	72.4

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

Table of Contents**W. R. Grace & Co. and Subsidiaries****Consolidated Statements of Cash Flows (unaudited)**

(In millions)

	Three Months Ended March 31, 2009 2008	
OPERATING ACTIVITIES		
Net income (loss)	\$ (38.8)	\$ 20.6
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	27.5	30.2
Chapter 11 expenses, net of interest income	10.0	18.4
(Benefit from) provision for income taxes	(23.4)	17.9
Income taxes paid, net of refunds	(0.3)	(15.4)
Interest accrued on pre-petition liabilities subject to compromise	8.8	14.3
Net gain on sales of investments and disposals of assets	(1.4)	(1.6)
Restructuring expenses	19.1	
Defined benefit pension expense	21.9	14.3
Payments under defined benefit pension arrangements	(11.7)	(19.5)
Payments under postretirement benefit plans	(1.3)	(1.1)
Net income from life insurance policies	(1.1)	(1.1)
Provision for uncollectible receivables	1.1	0.4
Provision for environmental remediation	0.7	5.9
Expenditures for environmental remediation	(2.2)	(1.3)
Expenditures for retained obligations of divested businesses	(0.1)	
Changes in assets and liabilities, excluding effect of businesses acquired/divested and foreign currency translation:		
Working capital items (trade accounts receivable, inventories and accounts payable)	89.6	(28.2)
Other accruals and non-cash items	(30.9)	(87.5)
Net cash provided by (used for) operating activities before Chapter 11 expenses and settlements	67.5	(33.7)
Chapter 11 expenses paid	(12.8)	(14.0)
Net cash provided by (used for) operating activities	54.7	(47.7)
INVESTING ACTIVITIES		
Capital expenditures	(16.6)	(25.9)
Proceeds from sales of investment securities	6.2	33.1
Purchases of equity investment	(0.5)	(3.0)
Proceeds from termination of life insurance policies	68.8	
Net investment in life insurance policies	(0.5)	
Proceeds from disposals of assets	2.4	2.5
Net cash provided by investing activities	59.8	6.7
FINANCING ACTIVITIES		
Dividends paid to noncontrolling interests in consolidated entities	(13.7)	
Net (repayments) borrowings under credit arrangements	1.2	(1.5)
Fees paid under debtor-in-possession credit facility	(0.4)	(0.7)
Proceeds from exercise of stock options		8.9

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Net cash provided by (used for) financing activities	(12.9)	6.7
Effect of currency exchange rate changes on cash and cash equivalents	(8.0)	14.6
Increase (decrease) in cash and cash equivalents	93.6	(19.7)
Cash and cash equivalents, beginning of period	460.1	480.5
Cash and cash equivalents, end of period	\$ 553.7	\$ 460.8

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

Table of Contents**W. R. Grace & Co. and Subsidiaries****Consolidated Balance Sheets (unaudited)****(In millions, except par value and shares)**

	March 31,	December 31,
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 553.7	\$ 460.1
Investment securities	15.6	21.6
Cash value of life insurance policies, net of policy loans		67.2
Trade accounts receivable, less allowance of \$5.2 (2008 \$5.0)	407.4	462.6
Inventories	288.6	354.8
Deferred income taxes	44.7	45.8
Other current assets	77.2	86.1
Total Current Assets	1,387.2	1,498.2
Properties and equipment, net of accumulated depreciation and amortization of \$1,523.3 (2008 \$1,545.3)	680.5	710.6
Goodwill	113.5	117.1
Deferred income taxes	850.1	851.7
Asbestos-related insurance	500.0	