

W R GRACE & CO
Form 10-Q
May 04, 2012

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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, 2012

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, 2012
Common Stock, \$0.01 par value per share	74,618,460 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 quarter ended March 31, 2012, 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, 2012, and the related consolidated statements of operations, comprehensive income, equity (deficit), and cash flows for the three-month periods ended March 31, 2012 and 2011. 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.

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 consolidated interim 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 consolidated interim 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, 2011, and the related consolidated statements of operations, comprehensive income, equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 24, 2012, 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. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLC

McLean, Virginia
May 4, 2012

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,	
	2012	2011
Net sales	\$ 754.4	\$ 695.7
Cost of goods sold	477.3	443.3
Gross profit	277.1	252.4
Selling, general and administrative expenses	136.6	129.9
Restructuring expenses and related asset impairments	3.0	0.2
Research and development expenses	16.5	15.6
Defined benefit pension expense	18.8	16.5
Interest expense and related financing costs	11.3	10.4
Provision for environmental remediation	0.6	0.2
Chapter 11 expenses, net of interest income	4.5	5.8
Equity in earnings of unconsolidated affiliate	(5.7)	(3.5)
Other income, net	(0.6)	(2.2)
Total costs and expenses	185.0	172.9
Income before income taxes	92.1	79.5
Provision for income taxes	(30.8)	(25.5)
Net income	61.3	54.0
Less: Net loss (income) attributable to noncontrolling interests	(0.4)	0.2
Net income attributable to W. R. Grace & Co. shareholders	\$ 60.9	\$ 54.2
Earnings Per Share Attributable to W. R. Grace & Co. Shareholders		
Basic earnings per share:		
Net income attributable to W. R. Grace & Co. shareholders	\$ 0.82	\$ 0.74
Weighted average number of basic shares	74.3	73.2
Diluted earnings per share:		
Net income attributable to W. R. Grace & Co. shareholders	\$ 0.80	\$ 0.72
Weighted average number of diluted shares	76.4	75.1

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 Comprehensive Income (unaudited)**

(In millions)	Three Months Ended March 31,	
	2012	2011
Net income	\$ 61.3	\$ 54.0
Other comprehensive income (loss):		
Defined benefit pension and other postretirement plans, net of income taxes	10.1	13.2
Currency translation adjustments	6.2	1.8
Gain (loss) from hedging activities, net of income taxes	(0.1)	0.7
Total other comprehensive income attributable to W. R. Grace & Co. shareholders	16.2	15.7
Total other comprehensive income attributable to noncontrolling interests	0.1	
Total other comprehensive income	16.3	15.7
Comprehensive income	\$ 77.6	\$ 69.7

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

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W. R. Grace & Co. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

(In millions)	Three Months Ended	
	2012	2011
OPERATING ACTIVITIES		
Net income	\$ 61.3	\$ 54.0
Reconciliation to net cash used for operating activities:		
Depreciation and amortization	29.4	29.2
Equity in earnings of unconsolidated affiliate	(5.7)	(3.5)
Dividends received from unconsolidated affiliate	5.2	
Chapter 11 expenses, net of interest income	4.5	5.8
Chapter 11 expenses paid	(3.2)	(3.8)
Provision for income taxes	30.8	25.5
Income taxes paid, net of refunds	(8.0)	(23.9)
Interest accrued on pre-petition liabilities subject to compromise	9.9	9.5
Restructuring expenses and related asset impairments	3.0	0.2
Payments for restructuring expenses and related asset impairments	(2.2)	(1.9)
Defined benefit pension expense	18.8	16.5
Payments under defined benefit pension arrangements	(113.7)	(207.3)
Provision for environmental remediation	0.6	0.2
Expenditures for environmental remediation	(4.4)	(2.4)
Changes in assets and liabilities, excluding effect of currency translation:		
Trade accounts receivable	11.1	(37.8)
Inventories	(26.1)	(38.5)
Accounts payable	(1.2)	45.4
All other items, net	(41.8)	(47.6)
Net cash used for operating activities	(31.7)	(180.4)
INVESTING ACTIVITIES		
Capital expenditures	(25.0)	(23.4)
Transfer to restricted cash and cash equivalents	(3.0)	(0.6)
Other investing activities		(0.1)
Net cash used for investing activities	(28.0)	(24.1)
FINANCING ACTIVITIES		
Net (repayments) borrowings under credit arrangements	0.9	(3.2)
Proceeds from exercise of stock options	12.0	1.9
Other financing activities	1.7	1.6
Net cash provided by financing activities	14.6	0.3
Effect of currency exchange rate changes on cash and cash equivalents	5.0	7.9
Decrease in cash and cash equivalents	(40.1)	(196.3)
Cash and cash equivalents, beginning of period	1,048.3	1,015.7
Cash and cash equivalents, end of period	\$ 1,008.2	\$ 819.4

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

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W. R. Grace & Co. and Subsidiaries
Consolidated Balance Sheets (unaudited)