

W R GRACE & CO  
Form 10-Q  
July 28, 2017

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 June 30, 2017

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.

(Exact name of registrant as specified in its charter)

Delaware

65-0773649

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

7500 Grace Drive, Columbia, Maryland 21044-4098

(Address of principal executive offices) (Zip Code)

(410) 531-4000

(Registrant's telephone number, including area code)

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 website, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. 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 July 25, 2017

Common Stock, \$0.01 par value per share 68,226,961 shares

---

Table of Contents

## TABLE OF CONTENTS

Part I. Financial Information

<u>Item 1. 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 Income (Loss)</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>	
<u>1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies</u>	<u>10</u>
<u>2. Inventories</u>	<u>13</u>
<u>3. Debt</u>	<u>13</u>
<u>4. Fair Value Measurements and Risk</u>	<u>14</u>
<u>5. Income Taxes</u>	<u>19</u>
<u>6. Pension Plans and Other Postretirement Benefit Plans</u>	<u>20</u>
<u>7. Other Balance Sheet Accounts</u>	<u>21</u>
<u>8. Commitments and Contingent Liabilities</u>	<u>22</u>
<u>9. Restructuring Expenses and Repositioning Expenses</u>	<u>25</u>
<u>10. Other (Income) Expense, net</u>	<u>25</u>
<u>11. Other Comprehensive Income (Loss)</u>	<u>26</u>
<u>12. Earnings Per Share</u>	<u>28</u>
<u>13. Segment Information</u>	<u>28</u>
<u>14. Unconsolidated Affiliate</u>	<u>30</u>
<u>15. Discontinued Operations</u>	<u>32</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>51</u>
<u>Item 4. Controls and Procedures</u>	<u>51</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>52</u>
<u>Item 1A. Risk Factors</u>	<u>52</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>52</u>
<u>Item 6. Exhibits</u>	<u>52</u>
<u>Signatures</u>	<u>54</u>

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 subsidiaries and/or affiliates. Unless otherwise indicated, in this Report the terms "Grace," "we," "us," or "our" mean W. R. Grace & Co. and/or its consolidated subsidiaries and affiliates, and the term "the Company" means W. R. Grace & Co. Unless otherwise indicated, the contents of websites mentioned in this report are not incorporated by reference or otherwise made a part of this Report.

The Financial Accounting Standards Board is referred to in this Report as the "FASB." The FASB issues, among other things, Accounting Standards Codifications ("ASC") and Accounting Standards Updates ("ASU").

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 June 30, 2017, PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, has applied limited procedures in accordance with professional auditing 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 as of June 30, 2017, and the related consolidated statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2017 and 2016 and the consolidated statements of cash flows and equity for the six-month periods ended June 30, 2017 and 2016. 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, 2016, 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 23, 2017, which included a paragraph describing a change in the manner of accounting for debt issuance costs and stock compensation in 2016, 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, 2016, 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  
July 28, 2017

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

(In millions, except per share amounts)	Three Months		Six Months	
	Ended June 30, 2017	2016	Ended June 30, 2017	2016
Net sales	\$429.5	\$390.5	\$827.5	\$753.3
Cost of goods sold	260.2	217.3	505.0	427.4
Gross profit	169.3	173.2	322.5	325.9
Selling, general and administrative expenses	70.3	66.4	136.8	134.4
Research and development expenses	12.9	12.4	26.1	24.1
Provision for environmental remediation, net	13.2	5.3	13.2	7.5
Equity in earnings of unconsolidated affiliate	(6.1 )	(2.6 )	(13.1 )	(9.5 )
Restructuring and repositioning expenses	5.4	9.4	7.7	23.0
Interest expense and related financing costs	20.1	19.8	39.6	41.8
Other (income) expense, net	(9.6 )	3.1	(11.8 )	13.8
Total costs and expenses	106.2	113.8	198.5	235.1
Income (loss) from continuing operations before income taxes	63.1	59.4	124.0	90.8
(Provision for) benefit from income taxes	(19.6 )	(21.5 )	(37.6 )	(42.7 )
Income (loss) from continuing operations	43.5	37.9	86.4	48.1
Income (loss) from discontinued operations, net of income taxes	—	0.6	—	(9.3 )
Net income (loss)	43.5	38.5	86.4	38.8
Less: Net (income) loss attributable to noncontrolling interests	0.4	0.2	0.4	0.4
Net income (loss) attributable to W. R. Grace & Co. shareholders	\$43.9	\$38.7	\$86.8	\$39.2
Amounts Attributable to W. R. Grace & Co. Shareholders:				
Income (loss) from continuing operations attributable to W. R. Grace & Co. shareholders	\$43.9	\$38.1	\$86.8	\$48.5
Income (loss) from discontinued operations, net of income taxes	—	0.6	—	(9.3 )
Net income (loss) attributable to W. R. Grace & Co. shareholders	\$43.9	\$38.7	\$86.8	\$39.2
Earnings Per Share Attributable to W. R. Grace & Co. Shareholders				
Basic earnings per share:				
Income (loss) from continuing operations	\$0.64	\$0.54	\$1.27	\$0.69
Income (loss) from discontinued operations, net of income taxes	—	0.01	—	(0.13 )
Net income (loss)	\$0.64	\$0.55	\$1.27	\$0.56
Weighted average number of basic shares	68.3	70.5	68.3	70.5
Diluted earnings per share:				
Income (loss) from continuing operations	\$0.64	\$0.54	\$1.27	\$0.68
Income (loss) from discontinued operations, net of income taxes	—	0.01	—	(0.13 )
Net income (loss)	\$0.64	\$0.55	\$1.27	\$0.55
Weighted average number of diluted shares	68.4	70.9	68.5	71.0
Dividends per common share	\$0.21	\$0.17	\$0.42	\$0.17

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 Income (Loss) (unaudited)

(In millions)	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income (loss)	\$43.5	\$38.5	\$86.4	\$38.8
Other comprehensive income (loss):				
Defined benefit pension and other postretirement plans, net of income taxes	(0.4 )	(0.4 )	(0.7 )	(0.7 )
Currency translation adjustments	(8.3 )	1.3	(9.7 )	(4.1 )
Gain (loss) from hedging activities, net of income taxes	(0.2 )	(0.3 )	0.5	(3.3 )
Total other comprehensive income (loss) attributable to noncontrolling interests	—	—	—	2.6
Total other comprehensive income (loss)	(8.9 )	0.6	(9.9 )	(5.5 )
Comprehensive income (loss)	34.6	39.1	76.5	33.3
Less: comprehensive (income) loss attributable to noncontrolling interests	0.4	0.2	0.4	(2.2 )
Comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$35.0	\$39.3	\$76.9	\$31.1

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)	Six Months	
	Ended June 30, 2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$86.4	\$38.8
Less: loss (income) from discontinued operations	—	9.3
Income from continuing operations	86.4	48.1
Reconciliation to net cash provided by (used for) operating activities from continuing operations:		
Depreciation and amortization	54.2	46.8
Equity in earnings of unconsolidated affiliate	(13.1 )	(9.5 )
Dividends received from unconsolidated affiliate	—	16.8
Costs related to legacy product, environmental and other claims	17.0	11.1
Cash paid for legacy product, environmental and other claims	(44.2 )	(6.0 )
Provision for (benefit from) income taxes	37.6	42.7
Cash paid for income taxes	(31.3 )	(26.8 )
Income tax refunds received	29.7	2.3
Loss on early extinguishment of debt	—	11.1
Interest expense and related financing costs	39.6	41.8
Cash paid for interest	(34.3 )	(40.6 )
Defined benefit pension expense	8.2	5.3
Cash paid under defined benefit pension arrangements	(7.8 )	(8.0 )
Changes in assets and liabilities, excluding effect of currency translation and acquisitions:		
Trade accounts receivable	4.3	37.2
Inventories	(3.9 )	(7.7 )
Accounts payable	7.4	7.0
All other items, net	(9.3 )	(34.8 )
Net cash provided by (used for) operating activities from continuing operations	140.5	136.8
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(59.1 )	(57.3 )
Business acquired	—	(245.1 )
Proceeds from sale of product lines	0.6	11.3
Other investing activities	(1.1 )	(0.6 )
Net cash provided by (used for) investing activities from continuing operations	(59.6 )	(291.7 )
<b>FINANCING ACTIVITIES</b>		
Borrowings under credit arrangements	98.8	16.0
Repayments under credit arrangements	(61.5 )	(609.4 )
Cash paid for repurchases of common stock	(30.0 )	(35.1 )
Proceeds from exercise of stock options	12.2	9.2
Dividends paid	(28.7 )	(12.0 )
Distribution from GCP	—	750.0
Other financing activities	(4.0 )	(2.7 )
Net cash provided by (used for) financing activities from continuing operations	(13.2 )	116.0
Effect of currency exchange rate changes on cash and cash equivalents	3.5	1.9
Increase (decrease) in cash and cash equivalents from continuing operations	71.2	(37.0 )
Cash flows from discontinued operations		
Net cash provided by (used for) operating activities	—	23.9



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

Net cash provided by (used for) investing activities	—	(9.5 )
Net cash provided by (used for) financing activities	—	31.4
Effect of currency exchange rate changes on cash and cash equivalents	—	(1.0 )
Increase (decrease) in cash and cash equivalents from discontinued operations	—	44.8
Net increase (decrease) in cash and cash equivalents	71.2	7.8
Less: cash and cash equivalents of discontinued operations	—	(143.4 )
Cash and cash equivalents, beginning of period	90.6	329.9
Cash and cash equivalents, end of period	\$161.8	\$194.3
Supplemental disclosure of cash flow information		
Capital expenditures in accounts payable	\$17.8	\$19.7
Net share settled stock option exercises	1.2	\$10.1

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)	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 161.8	\$ 90.6
Restricted cash and cash equivalents	10.8	10.0
Trade accounts receivable, less allowance of \$2.4 (2016—\$2.2)	265.0	273.9
Inventories	236.5	228.0
Other current assets	41.4	52.3
Total Current Assets	715.5	654.8
Properties and equipment, net of accumulated depreciation and amortization of \$1,397.6 (2016—\$1,327.5)	749.7	729.6
Goodwill	397.5	394.2
Technology and other intangible assets, net	261.9	269.1
Deferred income taxes	700.3	709.4
Investment in unconsolidated affiliate	131.9	117.6
Other assets	33.1	37.1
Total Assets	\$2,989.9	\$ 2,911.8
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Debt payable within one year	\$86.5	\$ 76.5
Accounts payable	199.9	195.4
Other current liabilities	183.6	208.9
Total Current Liabilities	470.0	480.8
Debt payable after one year	1,516.5	1,507.6
Underfunded and unfunded defined benefit pension plans	444.2	424.3
Other liabilities	153.6	126.7
Total Liabilities	2,584.3	2,539.4
Commitments and Contingencies—Note 8		
Equity		
Common stock issued, par value \$0.01; 300,000,000 shares authorized; outstanding: 68,226,070 (2016—68,309,431)	0.7	0.7
Paid-in capital	474.0	487.3
Retained earnings	677.3	619.3
Treasury stock, at cost: shares: 9,230,557 (2016—9,147,196)	(806.1 )	(804.9 )
Accumulated other comprehensive income (loss)	56.5	66.4
Total W. R. Grace & Co. Shareholders' Equity	402.4	368.8
Noncontrolling interests	3.2	3.6
Total Equity	405.6	372.4
Total Liabilities and Equity	\$2,989.9	\$ 2,911.8

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

Table of ContentsW. R. Grace & 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, 2015	\$496.7	\$436.3	\$(658.4)	\$ (66.8 )	\$ 4.7	\$212.5
Net income (loss)	—	39.2	—	—	(0.4 )	38.8
Repurchase of common stock	—	—	(35.1 )	—	—	(35.1 )
Stock based compensation	6.5	—	—	—	—	6.5
Exercise of stock options	(10.5 )	—	29.8	—	—	19.3
Tax benefit related to stock plans	—	72.3	—	—	—	72.3
Shares issued	0.7	—	—	—	—	0.7
Other comprehensive (loss) income	—	—	—	(8.1 )	2.6	(5.5 )
Cash dividends declared	—	(12.0 )	—	—	—	(12.0 )
Distribution of GCP	—	59.9	—	135.3	(3.7 )	191.5
Balance, June 30, 2016	\$493.4	\$595.7	\$(663.7)	\$ 60.4	\$ 3.2	\$489.0
Balance, December 31, 2016	\$488.0	\$619.3	\$(804.9)	\$ 66.4	\$ 3.6	\$372.4
Net income (loss)	—	86.8	—	—	(0.4 )	86.4
Repurchase of common stock	—	—	(30.0 )	—	—	(30.0 )
Payments to taxing authorities in consideration of employee tax obligations relative to stock-based compensation arrangements	(2.4 )	—	—	—	—	(2.4 )
Stock based compensation	5.4	—	—	—	—	5.4
Exercise of stock options	(17.0 )	—	28.8	—	—	11.8
Shares issued	0.7	—	—	—	—	0.7
Other comprehensive (loss) income	—	—	—	(9.9 )	—	(9.9 )
Dividends declared	—	(28.8 )	—	—	—	(28.8 )
Balance, June 30, 2017	\$474.7	\$677.3	\$(806.1)	\$ 56.5	\$ 3.2	\$405.6

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 two reportable segments: Grace Catalysts Technologies, which includes catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications; and Grace Materials Technologies, which includes specialty materials, including silica-based and silica-alumina-based materials, used in coatings, consumer, industrial, and pharmaceutical applications.

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.

**Separation Transaction** On January 27, 2016, Grace entered into a separation agreement with GCP Applied Technologies Inc., then a wholly-owned subsidiary of Grace ("GCP"), pursuant to which Grace agreed to transfer its Grace Construction Products operating segment and the packaging technologies business of its Grace Materials Technologies operating segment to GCP (the "Separation"). Grace and GCP completed the Separation on February 3, 2016 (the "Distribution Date"), by means of a pro rata distribution to the Company's stockholders of all of the outstanding shares of GCP common stock (the "Distribution"), with one share of GCP common stock distributed for each share of Company common stock held as of the close of business on January 27, 2016. As a result of the Distribution, GCP became an independent public company. GCP's historical financial results through the Distribution Date are reflected in Grace's Consolidated Financial Statements as discontinued operations.

**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 2016 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 six-month interim period ended June 30, 2017, are not necessarily indicative of the results of operations to be attained for the year ending December 31, 2017.

**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, which depend on assumptions regarding participant life spans, future inflation, discount rates and total returns on invested funds (see Note 6);
- Carrying values of goodwill and other intangible assets, which depend on assumptions of future earnings and cash flows; and
- 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.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

**Recently Issued Accounting Standards** 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 are effective for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years, with early adoption permitted for fiscal years beginning after December 15, 2016. The 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 will adopt the standard in the 2018 first quarter. Grace has begun its preliminary assessment and is identifying specific areas of impact on the Consolidated Financial Statements. At this time, Grace cannot reasonably estimate the effect of adoption. Grace has tentatively decided to adopt this standard under the modified retrospective approach and is still evaluating the effect on its financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." This update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term, including optional payments where they are reasonably certain to occur. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Currently, as a lessee, Grace is a party to a number of leases which, under existing guidance, are classified as operating leases and not recorded on the balance sheet but are expensed as incurred. Under the new standard, many of these leases will be recorded on the Consolidated Balance Sheets. Grace will adopt the standard in 2019 and at this time cannot reasonably estimate the effect of adoption.

In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows (Topic 230): Restricted Cash," which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new requirements are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. Grace is currently evaluating the timing of adoption and does not expect the update to have a material effect on the Consolidated Financial Statements. As of June 30, 2017, and December 31, 2016, restricted cash included in the Consolidated Balance Sheets was \$10.8 million and \$10.0 million, respectively.

In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805)," which provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this update (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments in this update also narrow the definition of the term "output" so that the term is consistent with how outputs are described in Topic 606. Public business entities are required to apply the amendments in this update to

annual periods beginning after December 15, 2017, including interim periods within those periods. Early application is permitted. Grace will evaluate the effect of the update at the time of any future acquisition or disposal.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

In January 2017, the FASB issued ASU 2017-04 "Intangibles—Goodwill and Other (Topic 350)." This update modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination ("Step 2"). Because these amendments eliminate Step 2 from the goodwill impairment test, they should reduce the cost and complexity of evaluating goodwill for impairment. Public business entities are required to adopt the amendments in this update for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Grace is currently evaluating the timing of adoption and does not expect the update to have a material effect on the Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07 "Compensation—Retirement Benefits (Topic 715)." This update requires that the service cost component of net benefit cost be presented with other compensation costs arising from services rendered. The remaining net benefit cost is either presented as a line item in the statement of operations outside of a subtotal for income from operations, if presented, or disclosed separately. Only the service cost component of net benefit expense can be capitalized. Public business entities are required to adopt the amendments in this update for fiscal years beginning after December 15, 2017. Grace is currently evaluating the update's effect on the Consolidated Financial Statements and will adopt the update in the 2018 first quarter.

In May 2017, the FASB issued ASU 2017-09 "Compensation—Stock Compensation (Topic 718)." This update clarifies the existing definition of the term "modification," which is currently defined as "a change in any of the terms or conditions of a share-based payment award." The update requires entities to account for modifications of share-based payment awards unless the (1) fair value, (2) vesting conditions and (3) classification as an equity instrument or a liability instrument of the modified award are the same as of the original award before modification. Public business entities are required to adopt the amendments in this update for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted. Grace does not currently have any modifications of share-based awards and will adopt the update when it becomes effective.

**Recently Adopted Accounting Standards** 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 International Accounting Standards Board's ("IASB") measurement of inventory. The update requires that inventory be measured at the lower of cost or net realizable value for entities using FIFO (first-in, first-out) 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 adopted this update in the first quarter of 2017, and it did not have a material effect on the Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments." This update is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. It addresses eight specific issues. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. Grace adopted this update in the 2017 second quarter, and it did not have a material effect on the Consolidated Financial Statements.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 2. Inventories

Inventories are stated at the lower of cost or net realizable value, and cost is determined using FIFO. Inventories consisted of the following at June 30, 2017, and December 31, 2016:

(In millions)	June 30, December 31,	
	2017	2016
Raw materials	\$ 55.3	\$ 57.7
In process	36.0	33.4
Finished products	123.1	115.8
Other	22.1	21.1
	\$ 236.5	\$ 228.0

## 3. Debt

## Components of Debt

(In millions)	June 30, 2017	December 31, 2016
5.125% senior notes due 2021, net of unamortized debt issuance costs of \$6.6 at June 30, 2017 (2016—\$7.3)	\$693.4	\$ 692.7
U.S. dollar term loan, net of unamortized debt issuance costs and discounts of \$5.1 at June 30, 2017 (2016—\$5.7)	403.3	402.7
5.625% senior notes due 2024, net of unamortized debt issuance costs of \$3.7 at June 30, 2017 (2016—\$4.0)	296.3	296.0
Euro term loan, net of unamortized debt issuance costs and discounts of \$1.1 at June 30, 2017 (2016—\$1.3)	89.9	82.5
Revolving credit facility	40.0	—
Debt payable to unconsolidated affiliate	40.0	39.5
Deferred payment obligation	—	30.0
Other borrowings(1)	40.1	40.7
Total debt	1,603.0	1,584.1
Less debt payable within one year	86.5	76.5
Debt payable after one year	\$1,516.5	\$ 1,507.6
Weighted average interest rates on total debt	4.6	% 4.6

(1) 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.

The principal maturities of debt outstanding at June 30, 2017, were as follows:

	(In millions)
2017	\$ 82.4
2018	8.4
2019	7.8
2020	6.6
2021	1,191.7
Thereafter	306.1
Total debt	\$ 1,603.0





Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 3. Debt (Continued)

On February 3, 2017, Grace funded the PD trust with \$30.0 million in respect of the deferred payment obligation relating to ZAI PD Claims. (See Note 8.)

As of June 30, 2017, the available credit under the \$300 million revolving credit facility was reduced to \$222.3 million by a \$40.0 million outstanding draw and by outstanding letters of credit.

During the 2016 first quarter, in connection with the Separation, GCP distributed \$750 million to Grace. Grace used \$600 million of those funds to repay \$526.9 million of its U.S. dollar term loan and €67.3 million of its euro term loan. As a result, Grace recorded a loss on early extinguishment of debt of \$11.1 million, which is included in "other (income) expense, net" in the Consolidated Statements of Operations.

## 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. 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.

At June 30, 2017, the carrying amounts and fair values of Grace's debt were as follows:

(In millions)	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
5.125% senior notes due 2021(1)	\$693.4	\$745.4	\$692.7	\$721.3
U.S. dollar term loan(2)	403.3	402.8	402.7	408.2
5.625% senior notes due 2024(1)	296.3	318.5	296.0	311.5
Euro term loan(2)	89.9	89.9	82.5	82.0
Other borrowings	120.1	120.1	110.2	110.2
Total debt	\$1,603.0	\$1,676.7	\$1,584.1	\$1,633.2

Carrying amounts are net of unamortized debt issuance costs of \$6.6 million and \$3.7 million as of June 30, 2017, (1) and \$7.3 million and \$4.0 million as of December 31, 2016, related to the 5.125% senior notes due 2021 and 5.625% senior notes due 2024, respectively.

Carrying amounts are net of unamortized debt issuance costs and discounts of \$5.1 million and \$1.1 million as of (2) June 30, 2017, and \$5.7 million and \$1.3 million as of December 31, 2016, related to the U.S. dollar term loan and euro term loan, respectively.

At June 30, 2017, 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.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

**Currency Derivatives** Because Grace operates and/or sells to customers in over 60 countries and in 30 currencies, its 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, swaps, or combinations thereof 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. Forward contracts with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted repayments of intercompany loans. The effective portion of gains and losses on these currency hedges is recorded in "accumulated other comprehensive income (loss)" and reclassified into "other (income) expense" when these derivatives mature.

The valuation of Grace's currency exchange rate forward contracts and swaps 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 income (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 June 30, 2017, and December 31, 2016:

## Fair Value Measurements at June 30, 2017,

Using

(In millions)	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	\$3.6	\$	—	\$ 3.6	\$	—
Total Assets	\$3.6	\$	—	\$ 3.6	\$	—
<b>Liabilities</b>						
Interest rate derivatives	\$5.1	\$	—	\$ 5.1	\$	—
Currency derivatives	11.6	—		11.6	—	

Total Liabilities	\$16.7	\$	—\$	16.7	\$	—
-------------------	--------	----	-----	------	----	---

15

---

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

(In millions)	Fair Value Measurements at December 31, 2016, Using			
	Quoted Prices in Active Markets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total for Identical Assets or Liabilities (Level 1)
<b>Assets</b>				
Currency derivatives	\$8.8	\$ —	\$ 8.8	\$ —
Total Assets	\$8.8	\$ —	\$ 8.8	\$ —
<b>Liabilities</b>				
Interest rate derivatives	\$6.0	\$ —	\$ 6.0	\$ —
Currency derivatives	0.9	—	0.9	—
Total Liabilities	\$6.9	\$ —	\$ 6.9	\$ —

The following tables present the location and fair values of derivative instruments included in the Consolidated Balance Sheets as of June 30, 2017, and December 31, 2016:

June 30, 2017 (In millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	\$ 3.0	Other current liabilities	\$ 0.4
Interest rate contracts	Other current assets	—	Other current liabilities	1.9
Currency contracts	Other assets	—	Other liabilities	10.5
Interest rate contracts	Other assets	—	Other liabilities	3.2
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	0.6	Other current liabilities	0.7
Total derivatives		\$ 3.6		\$ 16.7
December 31, 2016 (In millions)	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	\$ 4.0	Other current liabilities	\$ —

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

Interest rate contracts	Other current assets	—	Other current liabilities	2.8
Currency contracts	Other assets	4.0	Other liabilities	—
Interest rate contracts	Other assets	—	Other liabilities	3.2
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	0.8	Other current liabilities	0.9
Total derivatives		\$ 8.8		\$ 6.9

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 six months ended June 30, 2017 and 2016:

(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)
Three Months Ended June 30, 2017			
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	\$ (1.1 )	Interest expense	\$ (0.8 )
Currency contracts	—	Other expense	(0.1 )
Total derivatives	\$ (1.1 )		\$ (0.9 )
Six Months Ended June 30, 2017			
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	\$ (1.0 )	Interest expense	\$ (1.7 )
Currency contracts	(0.1 )	Other expense	(0.1 )
Total derivatives	\$ (1.1 )		\$ (1.8 )
Three Months Ended June 30, 2016			
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	\$ (1.9 )	Interest expense	\$ (1.1 )
Currency contracts	0.2	Other expense	(0.1 )
Total derivatives	\$ (1.7 )		\$ (1.2 )

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

Six Months Ended June 30, 2016 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) into Income (Effective Portion)	Reclassified from Accumulated OCI	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:				
Interest rate contracts	\$ (6.4 )	Interest expense		\$ (2.1 )
Currency contracts	0.1	Other expense		0.4
Total derivatives	\$ (6.3 )			\$ (1.7 )

**Net Investment Hedges** Grace uses cross-currency swaps as derivative hedging instruments in certain net investment hedges of its non-U.S. subsidiaries. The effective portion of gains and losses attributable to these net investment hedges is recorded net of tax to "currency translation adjustments" within "accumulated other comprehensive income (loss)" to offset the change in the carrying value of the net investment being hedged. 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 June 30, 2017, the notional amount of €170.0 million of Grace's cross-currency swaps was designated as a hedging instrument of its net investment in its European subsidiaries.



Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

Grace also uses foreign currency denominated debt and deferred intercompany royalties as non-derivative 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 (loss)." 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 June 30, 2017, €80.1 million of Grace's term loan principal was designated as a hedging instrument of its net investment in its European subsidiaries. At June 30, 2017, €45.0 million of Grace's deferred intercompany royalties was designated as a hedging instrument of its net investment in its European subsidiaries.

The following tables present the location and amount of gains and losses on derivative and non-derivative instruments designated as net investment hedges for the three and six months ended June 30, 2017 and 2016. There were no reclassifications of the effective portion of net investment hedges out of OCI and into earnings for the periods presented in the tables below.

Three Months Ended June 30, 2017 (In millions)	Amount of Gain (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion)
Derivatives in ASC 815 net investment hedging relationships:	
Cross-currency swap	\$ (6.1 )
Non-derivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$ (4.9 )
Foreign currency denominated deferred intercompany royalties	(2.9 )
	\$ (7.8 )
	Amount of Gain (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion)
Six Months Ended June 30, 2017 (In millions)	
Derivatives in ASC 815 net investment hedging relationships:	
Cross-currency swap	\$ (8.6 )
Non-derivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$ (7.2 )
Foreign currency denominated deferred intercompany royalties	(4.4 )
	\$ (11.6 )

Three Months Ended June 30, 2016 (In millions)	Amount of Gain (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion)
Derivatives in ASC 815 net investment hedging relationships:	
Cross-currency swap	\$ 0.1
Non-derivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$ 0.9

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

Six Months Ended June 30, 2016 (In millions)	Amount of Gain (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion)
Derivatives in ASC 815 net investment hedging relationships:	
Cross-currency swap	\$ 0.1
Non-derivatives in ASC 815 net investment hedging relationships:	
Foreign currency denominated debt	\$ (0.5 )

**Credit Risk** Grace is exposed to credit risk in its trade accounts receivable. Customers in the petroleum refining industry represent the greatest exposure. Grace's credit evaluation policies mitigate credit risk exposures, and it has a history of minimal credit losses. 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.

## 5. Income Taxes

The effective tax rate is 32.1% as of June 30, 2017, compared with 35.6% for the year ended December 31, 2016. The 2017 tax rate includes a discrete benefit of \$3.0 million for share-based compensation deductions offset by a charge of \$1.1 million for a tax law change in Tennessee. The 2016 tax rate included \$10.1 million in discrete charges caused by an increase in the valuation allowance on deferred tax assets, partially offset by a discrete benefit of \$6.7 million for share-based compensation deductions.

Grace generated U.S. federal tax deductions relating to its emergence from bankruptcy in 2014. The deductions generated U.S. federal NOLs, which Grace has carried 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 generated U.S. federal tax deductions of \$30 million upon payment of the ZAI PD obligation in the 2017 first quarter. (See Note 8.)

The following table summarizes the balance of deferred tax assets, net of deferred tax liabilities, at June 30, 2017, of \$697.3 million:

	Deferred Tax Asset (Net of Liabilities)	Valuation Allowance	Net Deferred Tax Asset
United States—Federal	\$ 627.1	\$ (17.7 )	\$ 609.4
United States—States	50.9	(11.2 )	39.7
Germany	42.7	—	42.7
Other foreign	8.0	(2.5 )	5.5
Total	\$ 728.7	\$ (31.4 )	\$ 697.3

Grace will need to generate approximately \$1,700 million of U.S. federal taxable income by 2035 (or approximately \$95 million per year during the carryforward period) to fully realize the U.S. federal net deferred tax assets.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 5. Income Taxes (Continued)

The following table summarizes expiration dates in jurisdictions where Grace has, or will have, material tax loss and credit carryforwards:

	Expiration Dates
United States—Federal (NOLs)	2034 - 2035
United States—Federal (Credits)	2019 - 2027
United States—States (NOLs)	2017 - 2035

In evaluating its 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 than not to be realized.

## 6. Pension Plans and Other Postretirement Benefit Plans

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

(In millions)	June 30, December 31,	
	2017	2016
Underfunded defined benefit pension plans	\$(81.5 )	\$ (83.1 )
Unfunded defined benefit pension plans	(362.7 )	(341.2 )
Total underfunded and unfunded defined benefit pension plans	(444.2 )	(424.3 )
Pension liabilities included in other current liabilities	(15.0 )	(14.4 )
Net funded status	\$(459.2)	\$ (438.7 )

Underfunded plans include a group of advance-funded plans that are underfunded on a projected benefit obligation ("PBO") basis. Unfunded plans include several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO is unfunded.

## Components of Net Periodic Benefit Cost (Income)

(In millions)	Three Months Ended June 30,					
	2017			2016		
	Pension	Other Post	Pension	Other Post	Pension	Other Post
	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.	Retirement
Service cost	\$4.3	\$ 2.0	\$ —	\$4.4	\$ 1.7	\$ —
Interest cost	10.5	1.1	—	10.2	1.3	—
Expected return on plan assets	(14.4)	(0.2 )	—	(14.2)	(0.3 )	—
Amortization of prior service credit	(0.1 )	—	(0.5 )	—	—	(0.6 )
Amortization of net deferred actuarial loss	—	—	0.1	—	—	0.1
Curtailment gain	—	—	—	—	(0.7 )	—
Net periodic benefit cost (income) from continuing operations	\$0.3	\$ 2.9	\$ (0.4 )	\$0.4	\$ 2.0	\$ (0.5 )

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

(In millions)	Six Months Ended June 30,					
	2017			2016		
	Pension	Other Post	Pension	Other Post	Pension	Other Post
	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.	Retirement
Service cost	\$8.6	\$ 4.0	\$ —	\$9.4	\$ 3.7	\$ —
Interest cost	21.0	2.1	—	20.7	3.3	—
Expected return on plan assets	(28.8)	(0.4 )	—	(28.8)	(1.3 )	—
Amortization of prior service credit	(0.2 )	—	(1.0 )	(0.1 )	—	(1.2 )
Amortization of net deferred actuarial loss	—	—	0.2	—	—	0.3
Curtailement gain	—	—	—	—	(0.7 )	—
Net periodic benefit cost (income)	0.6	5.7	(0.8 )	1.2	5.0	(0.9 )
Less: discontinued operations	—	—	—	(0.5 )	(0.2 )	—
Net periodic benefit cost (income) from continuing operations	\$0.6	\$ 5.7	\$ (0.8 )	\$0.7	\$ 4.8	\$ (0.9 )

**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 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 six months ended June 30, 2017, were \$3.0 million and \$5.7 million compared with \$2.7 million and \$5.4 million for the corresponding prior-year periods. U.S. salaried employees and certain U.S. hourly employees that are hired on or after January 1, 2017, and employees in Germany that are hired on or after January 1, 2016, will participate in defined contribution plans instead of defined benefit pension plans.

## 7. Other Balance Sheet Accounts

(In millions)	June 30, December 31,	
	2017	2016
<b>Other Current Liabilities</b>		
Accrued compensation	\$ 39.0	\$ 49.6
Environmental contingencies	26.8	32.5
Deferred revenue	21.2	27.2
Accrued interest	17.0	16.2
Pension liabilities	15.0	14.4
Income taxes payable	8.5	5.7
Other accrued liabilities	56.1	63.3
	\$ 183.6	\$ 208.9

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

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 7. Other Balance Sheet Accounts (Continued)

(In millions)	June 30, December 31,	
	2017	2016
Other Liabilities		
Environmental contingencies	\$ 41.5	\$ 33.8
Liability to unconsolidated affiliate	27.4	27.0
Asset retirement obligation	8.7	10.2
Postemployment liability	7.0	7.2
Deferred revenue	9.4	2.3
Other noncurrent liabilities	59.6	46.2
	\$ 153.6	\$ 126.7

## 8. Commitments and Contingent Liabilities

Over the years, Grace operated numerous types of businesses that are no longer part of its business portfolio. As Grace divested or otherwise ceased operating these businesses, it retained certain liabilities and obligations, which we refer to as legacy liabilities. The principal legacy liabilities are product and environmental liabilities. Although the outcome of each of the matters discussed below cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under U.S. GAAP.

## Legacy Product and Environmental Liabilities

**Legacy Product 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 contingent financial 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 and \$30.0 million on February 3, 2017. 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 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.

**Legacy Environmental Liabilities** Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to its manufacturing operations. Grace has procedures in place to minimize such contingencies; nevertheless, it has liabilities associated with past operations and additional claims may arise in the future. To address its legacy liabilities, Grace accrues for anticipated costs of 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 regularly and adjusted when circumstances become better defined or response efforts and their costs can be better estimated, typically as a matter moves through the life-cycle of environmental investigation and remediation. These liabilities are evaluated based on currently available information, relating to the nature and extent of contamination, risk assessments, feasibility of response actions, and apportionment amongst other potentially responsible parties, all evaluated in light of prior experience.

At June 30, 2017, Grace's estimated liability for legacy environmental response costs totaled \$68.3 million, compared with \$66.3 million at December 31, 2016, and was included in "other current liabilities" and "other liabilities" in the Consolidated Balance Sheets. These amounts are based on agreements in place or on Grace's estimate of costs where no formal remediation plan exists, yet there is sufficient information to estimate response costs.

**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.

Grace is engaged with the U.S. Environmental Protection Agency (the "EPA") and other federal, state and local governmental agencies in a remedial investigation and feasibility study ("RI/FS") of the Libby mine and the surrounding area. In its 2017 Annual Project Update for the Libby Asbestos Superfund Site, the EPA announced a narrowing of its focus from the former "OU3 Study Area" to a smaller Operable Unit 3 or "OU3." Within this revised area, the RI/FS will determine the specific areas requiring remediation and will identify possible remedial action alternatives. Possible remedial actions within OU3 are wide-ranging, from institutional controls such as land use restrictions, to more active measures involving soil removal, containment projects, or other protective measures. Grace expects the RI/FS and a record of decision to be completed by the end of 2019. When meaningful new information becomes available, Grace will reevaluate estimated liability for the costs for remediation of the mine and surrounding area and adjust its reserves accordingly.

The EPA is also investigating or remediating formerly owned or operated sites that processed Libby vermiculite into finished products. Grace is cooperating with the EPA on these investigation and remediation activities, and has recorded a liability to the extent that its review has indicated that a probable liability has been incurred and the cost is estimable. These liabilities cover the estimated cost of investigations and, to the extent an assessment has indicated that remediation is necessary, the estimable cost of response actions. Response actions typically involve soil excavation and removal, and replacement with clean fill. The EPA may commence additional investigations in the future at other sites that processed Libby vermiculite, but Grace does not believe, based on its knowledge of prior and current operations and site conditions, that liability for remediation at such other sites is probable.

Grace accrued \$4.3 million in the three months ended June 30, 2017 for future costs related to vermiculite-related matters, which reflects provision for an agreed upon remedy at a former vermiculite processing site. Grace's total estimated liability for response costs that are currently estimable for the Libby mine and surrounding area, and at

vermiculite processing sites outside of Libby at June 30, 2017, and December 31, 2016, was \$26.8

23

---

Table of Contents

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingent Liabilities (Continued)

million and \$31.2 million, respectively. It is probable that Grace's ultimate liability for these vermiculite-related matters will exceed current estimates by material amounts.

Non-Vermiculite-Related Matters

Grace accrued \$8.9 million in the three months ended June 30, 2017 for future costs related to non-vermiculite-related matters, \$7.2 million of which was to increase the liability for remediation at a former manufacturing site to maintain ten years of operation and maintenance expenses. At June 30, 2017, and December 31, 2016, Grace's estimated legacy environmental liability for response costs at sites not related to its former vermiculite mining and processing activities was \$41.5 million and \$35.1 million, respectively. This liability relates to Grace's former businesses or operations, including its share of liability at off-site disposal facilities. Grace's estimated liability is based upon regulatory requirements and environmental conditions at each site. As Grace receives new information its estimated liability may change materially.

Commercial and Financial Commitments and Contingencies

**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, 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.

• 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 related to activities prior to the closing of the transaction, including environmental liabilities.

• Contracts related to the Separation in which Grace has agreed to indemnify GCP against liabilities related to activities prior to the closing of the transaction, including tax, employee, and 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 June 30, 2017, Grace had gross financial assurances issued and outstanding of \$122.9 million, composed of \$39.5 million of surety bonds issued by various insurance companies and \$83.4 million of standby letters of credit and other financial assurances issued by various banks.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 9. Restructuring Expenses and Repositioning Expenses

**Restructuring Expenses** In the 2017 second quarter, Grace incurred costs from restructuring actions, primarily related to workforce reductions as a result of changes in the business environment and its business structure, which are included in "restructuring and repositioning expenses" in the Consolidated Statements of Operations. Costs in the 2016 first and second quarters primarily related to the exit of certain non-strategic product lines in the Materials Technologies reportable segment.

The following table presents restructuring expenses by reportable segment for the three and six months ended June 30, 2017.

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Catalysts Technologies	\$—	\$0.6	\$0.4	\$1.1
Materials Technologies	0.1	7.3	0.3	15.2
Corporate	1.9	—	4.1	0.1
Total restructuring expenses	\$2.0	\$7.9	\$4.8	\$16.4

These costs are not included in segment operating income. Substantially all costs related to the restructuring programs are expected to be paid by December 31, 2017.

Restructuring Liability (In millions)	Total
Balance, December 31, 2016	\$9.6
Accruals for severance and other costs	4.4
Payments	(7.2 )
Currency translation adjustments and other	0.1
Balance, June 30, 2017	\$6.9

**Repositioning Expenses** Pretax repositioning expenses included in continuing operations for the three and six months ended June 30, 2017, were \$3.3 million and \$2.8 million compared with \$1.5 million and \$6.6 million for the corresponding prior-year periods. The expenses incurred in 2017 primarily relate to the Separation and third party consulting costs related to productivity initiatives. Substantially all of these costs have been or are expected to be settled in cash.

## 10. Other (Income) Expense, net

Components of other (income) expense, net are as follows:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Business interruption insurance recovery	\$(10.6)	\$—	\$(13.1)	\$—
Currency transaction effects	1.5	(0.2 )	2.0	0.3
Chapter 11 expenses, net	0.6	0.8	1.5	2.0
Interest income	(0.6 )	(0.4 )	(0.8 )	(0.6 )
Net (gain) loss on sales of investments and disposals of assets	0.4	(0.3 )	0.8	0.2
Loss on early extinguishment of debt	—	—	—	11.1
Third-party acquisition-related costs	—	2.5	—	2.5

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

Other miscellaneous (income) expense	(0.9 )	0.7	(2.2 )	(1.7 )
Total other (income) expense, net	\$(9.6 )	\$3.1	\$(11.8)	\$13.8

25

---

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 10. Other (Income) Expense, net (Continued)

In January 2017, a Catalysts Technologies customer experienced an explosion and fire resulting in an extended outage. Grace has confirmed with its third party insurer that it has a valid claim under its business interruption insurance policy for lost profits as a result of the outage. The policy has a \$25 million limit. Given the length of the outage, Grace expects to receive the full value of the policy by the end of 2017. Grace has received \$10.4 million in payments from the insurer through June 30, 2017.

See Note 3 for more information related to Grace's 2016 early extinguishment of debt.

## 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 six months ended June 30, 2017 and 2016:

Three Months Ended June 30, 2017 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	\$ (0.6 )	\$ 0.2	\$ (0.4 )
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.1	(0.1 )	—
Benefit plans, net	(0.5 )	0.1	(0.4 )
Currency translation adjustments	(8.3 )	—	(8.3 )
Gain (loss) from hedging activities	(0.2 )	—	(0.2 )
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$ (9.0 )	\$ 0.1	\$ (8.9 )
Six Months Ended June 30, 2017 (In millions)			
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	\$ (1.2 )	\$ 0.4	\$ (0.8 )
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.2	(0.1 )	0.1
Benefit plans, net	(1.0 )	0.3	(0.7 )
Currency translation adjustments	(9.7 )	—	(9.7 )
Gain (loss) from hedging activities	0.7	(0.2 )	0.5
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$ (10.0 )	\$ 0.1	\$ (9.9 )
Three Months Ended June 30, 2016 (In millions)			
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	\$ (0.6 )	\$ 0.2	\$ (0.4 )
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.1	(0.1 )	—
Benefit plans, net	(0.5 )	0.1	(0.4 )
Currency translation adjustments	1.3	—	1.3
Gain (loss) from hedging activities	(0.4 )	0.1	(0.3 )
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$ 0.4	\$ 0.2	\$ 0.6

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

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

Six Months Ended June 30, 2016 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Amortization of net prior service credit included in net periodic benefit cost	\$ (1.3 )	\$ 0.5	\$ (0.8 )
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.3	(0.2 )	0.1
Benefit plans, net	(1.0 )	0.3	(0.7 )
Currency translation adjustments	(4.1 )	—	(4.1 )
Gain (loss) from hedging activities	(5.1 )	1.8	(3.3 )
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	\$ (10.2 )	\$ 2.1	\$ (8.1 )

The following tables present the changes in accumulated other comprehensive income (loss), net of tax, for the six months ended June 30, 2017 and 2016:

Six Months Ended June 30, 2017 (In millions)	Defined Benefit Pension and Other Postretirement Plans	Currency Translation Adjustments	Gain (Loss) from Hedging Activities	Total
Beginning balance	\$ 2.2	\$ 67.6	\$ (3.4 )	\$ 66.4
Other comprehensive income (loss) before reclassifications	—	(9.7 )	(0.7 )	(10.4 )
Amounts reclassified from accumulated other comprehensive income (loss)	(0.7 )	—	1.2	0.5
Net current-period other comprehensive income (loss)	(0.7 )	(9.7 )	0.5	(9.9 )
Ending balance	\$ 1.5	\$ 57.9	\$ (2.9 )	\$ 56.5
Six Months Ended June 30, 2016 (In millions)	Defined Benefit Pension and Other Postretirement Plans	Currency Translation Adjustments	Gain (Loss) from Hedging Activities	Total
Beginning balance	\$ 3.0	\$ (66.1 )	\$ (3.7 )	\$ (66.8)
Other comprehensive income (loss) before reclassifications	—	(4.1 )	(4.4 )	(8.5 )
Amounts reclassified from accumulated other comprehensive income (loss)	(0.7 )	—	1.1	0.4
Net current-period other comprehensive income (loss)	(0.7 )	(4.1 )	(3.3 )	(8.1 )
Distribution of GCP	(0.2 )	135.5	—	135.3
Ending balance	\$ 2.1	\$ 65.3	\$ (7.0 )	\$ 60.4

Grace is a global enterprise operating in many 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share amounts)	2017	2016	2017	2016
<b>Numerators</b>				
Income (loss) from continuing operations attributable to W. R. Grace & Co. shareholders	\$43.9	\$38.1	\$86.8	\$48.5
Income (loss) from discontinued operations, net of income taxes	—	0.6	—	(9.3 )
Net income (loss) attributable to W. R. Grace & Co. shareholders	\$43.9	\$38.7	\$86.8	\$39.2
<b>Denominators</b>				
Weighted average common shares—basic calculation	68.3	70.5	68.3	70.5
Dilutive effect of employee stock options	0.1	0.4	0.2	0.5
Weighted average common shares—diluted calculation	68.4	70.9	68.5	71.0
<b>Basic earnings per share attributable to W. R. Grace &amp; Co. shareholders</b>				
Income (loss) from continuing operations	\$0.64	\$0.54	\$1.27	\$0.69
Income (loss) from discontinued operations, net of income taxes	—	0.01	—	(0.13 )
Net income (loss)	\$0.64	\$0.55	\$1.27	\$0.56
<b>Diluted earnings per share attributable to W. R. Grace &amp; Co. shareholders</b>				
Income (loss) from continuing operations	\$0.64	\$0.54	\$1.27	\$0.68
Income (loss) from discontinued operations, net of income taxes	—	0.01	—	(0.13 )
Net income (loss)	\$0.64	\$0.55	\$1.27	\$0.55

There were 1.6 million and 1.5 million anti-dilutive options outstanding for the three and six months ended June 30, 2017, compared with 1.0 million and 1.2 million for the corresponding prior-year periods.

On February 5, 2015, the Company announced that its Board of Directors had authorized a share repurchase program of up to \$500 million. During the six months ended June 30, 2017 and 2016, the Company repurchased 425,673 shares and 472,400 shares of Company common stock for \$30.0 million and \$35.1 million, respectively, pursuant to the terms of the share repurchase program. As of June 30, 2017, \$3.9 million remained under this authorization. On February 8, 2017, the Company announced that its Board of Directors authorized a new share repurchase program of up to \$250 million, expected to be completed over the next 24 to 36 months at the discretion of 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.

## 13. Segment Information

Grace is a global producer of specialty chemicals and specialty materials. Grace's two reportable business segments are Grace Catalysts Technologies and Grace Materials Technologies. Grace Catalysts Technologies includes catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications. Advanced Refining Technologies (ART), Grace's joint venture with Chevron Products Company, a division of Chevron U.S.A. Inc. ("Chevron"), is managed in this segment. (See Note 14.) Grace Catalysts Technologies comprises two operating segments, Grace Refining Technologies and Grace Specialty

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 13. Segment Information (Continued)

Catalysts, which are aggregated into one reportable segment based upon similar economic characteristics, the nature of the products and production processes, type and class of customer, and channels of distribution. Grace Materials Technologies includes specialty materials, including silica-based and silica-alumina-based materials, used in coatings, consumer, industrial, and pharmaceutical applications. The table below presents information related to Grace's reportable segments. Only those corporate expenses directly related to the reportable 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 reportable segment performance as defined benefit pension expense is not managed at a reportable segment level.

Grace defines Adjusted EBIT to be income from continuing operations attributable to W. R. Grace & Co. shareholders adjusted for interest income and expense; income taxes; costs related to legacy product, environmental and other claims; 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; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; and certain other items that are not representative of underlying trends.

## Reportable Segment Data

(In millions)	Three Months		Six Months	
	Ended June 30, 2017	2016	Ended June 30, 2017	2016
Net Sales				
Catalysts Technologies	\$320.5	\$278.4	\$614.3	\$539.0
Materials Technologies	109.0	112.1	213.2	214.3
Total	\$429.5	\$390.5	\$827.5	\$753.3
Adjusted EBIT				
Catalysts Technologies segment operating income	\$101.3	\$87.5	\$182.5	\$165.8
Materials Technologies segment operating income	24.2	28.0	49.0	48.6
Corporate costs	(18.3 )	(16.3 )	(34.4 )	(29.5 )
Certain pension costs	(3.2 )	(3.1 )	(6.3 )	(6.2 )
Total	\$104.0	\$96.1	\$190.8	\$178.7

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

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 13. Segment Information (Continued)

Reconciliation of Reportable Segment Data to Financial Statements Grace Adjusted EBIT for the three and six months ended June 30, 2017 and 2016, is reconciled below to income from continuing operations before income taxes presented in the accompanying Consolidated Statements of Operations.

(In millions)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Grace Adjusted EBIT	\$104.0	\$96.1	\$190.8	\$178.7
(Costs) benefit related to legacy product, environmental and other claims	(14.9 )	(6.7 )	(17.0 )	(11.1 )
Restructuring and repositioning expenses	(5.4 )	(9.4 )	(7.7 )	(23.0 )
Pension MTM adjustment and other related costs, net	—	0.7	(1.9 )	0.9
Income and expense items related to divested businesses	(0.7 )	0.1	(1.0 )	(0.2 )
Third-party acquisition-related costs	—	(2.5 )	—	(2.5 )
Gain on sale of product line	—	0.7	—	0.7
Loss on early extinguishment of debt	—	—	—	(11.1 )
Interest expense, net	(19.5 )	(19.4 )	(38.8 )	(41.2 )
Net income (loss) attributable to noncontrolling interests	(0.4 )	(0.2 )	(0.4 )	(0.4 )
Income from continuing operations before income taxes	\$63.1	\$59.4	\$124.0	\$90.8

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		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Net Sales				
United States	\$108.8	\$112.4	\$212.6	\$220.6
Canada and Puerto Rico	12.0	11.6	23.9	22.3
Total North America	120.8	124.0	236.5	242.9
Europe Middle East Africa	163.9	158.4	312.6	300.8
Asia Pacific	115.5	83.1	215.4	155.2
Latin America	29.3	25.0	63.0	54.4
Total	\$429.5	\$390.5	\$827.5	\$753.3

## 14. Unconsolidated Affiliate

Grace accounts for its 50% ownership interest in ART, its joint venture with Chevron, using the equity method of accounting. Grace's investment in ART amounted to \$131.9 million and \$117.6 million as of June 30, 2017, and December 31, 2016, respectively, and the amount included in "equity in earnings of unconsolidated affiliate" in the accompanying Consolidated Statements of Operations totaled \$6.1 million and \$13.1 million for the three and six months ended June 30, 2017, compared with \$2.6 million and \$9.5 million for the corresponding prior-year periods. ART is a private, limited liability company, taxed as a partnership, and accordingly does not have a quoted market price available.

The following summary presents ART's assets, liabilities and results of operations.

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 14. Unconsolidated Affiliate (Continued)

(In millions)	June 30, 2017	December 31, 2016
Summary Balance Sheet information:		
Current assets	\$246.7	\$ 249.2
Noncurrent assets	84.9	84.8
Total assets	\$331.6	\$ 334.0
Current liabilities	\$71.7	\$ 102.0
Noncurrent liabilities	—	0.3
Total liabilities	\$71.7	\$ 102.3

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$110.5	\$81.7	\$207.9	\$145.7
Costs and expenses applicable to net sales	94.7	75.2	173.6	123.4
Income before income taxes	12.6	5.3	26.8	19.2
Net income	12.2	5.1	26.2	18.9

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. Sales to ART are accounted for on a net basis, with a mark-up, in "cost of goods sold" in the Consolidated Statements of Operations. Grace also receives reimbursement from ART for fixed costs, research and development, selling, general and administrative services and depreciation. Grace records reimbursements against the respective line items on Grace's Consolidated Statement of Operations. The table below presents summary financial data related to transactions between Grace and ART.

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Grace sales of catalysts to ART	\$53.1	\$43.8	\$104.5	\$100.3
Mark-up on Grace's sales to ART included as a reduction of Grace's cost of goods sold	1.0	1.1	2.0	2.0
Charges for fixed costs, research and development, selling, general and administrative services, and depreciation to ART	10.4	6.1	20.8	12.3

The table below lists Grace balances related to ART.

(in millions)	June 30, 2017	December 31, 2016
Accounts receivable	\$ 3.3	\$ 14.9
Noncurrent asset	27.4	27.0
Accounts payable	28.8	28.7
Debt payable within one year	7.8	7.6
Debt payable after one year	32.2	31.9

Noncurrent liability                    27.4      27.0

The noncurrent asset and noncurrent liability in the table above represent spending to date related to a planned residue hydroprocessing catalyst production plant in Lake Charles, Louisiana. Grace manages the

31

---

Table of Contents

## Notes to Consolidated Financial Statements (Continued)

## 14. Unconsolidated Affiliate (Continued)

design and construction of the plant, and the asset will be included in "other assets" in Grace's Consolidated Balance Sheets until construction is completed. Grace has likewise recorded a liability for the transfer of the asset to ART upon completion, included in "other liabilities" in the Consolidated Balance Sheets.

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 have been approved by the ART Executive Committee for renewal until February 24, 2018. No amounts were outstanding at June 30, 2017, and December 31, 2016.

## 15. Discontinued Operations

As a result of the Separation and Distribution, GCP is now an independent public company and its common stock is listed under the symbol "GCP" on the New York Stock Exchange. Grace does not beneficially own any shares of GCP common stock and will not consolidate the financial results of GCP in its future financial reporting, as GCP is no longer a related party to Grace subsequent to the Separation. GCP's historical financial results through the Distribution Date are reflected in Grace's Consolidated Financial Statements as discontinued operations. For a summary of the Separation and Distribution Agreement and the related Tax Sharing Agreement, see Note 21, "Discontinued Operations" to the Consolidated Financial Statements in Grace's Form 10-K for the year ended December 31, 2016. Grace has filed the full texts of the Separation and Distribution Agreement and the Tax Sharing Agreement with the SEC, which are readily available on the Internet at [www.sec.gov](http://www.sec.gov).

GCP's historical financial results through the February 3, 2016, Distribution Date and other effects of the Separation for the six months ended June 30, 2016, are presented as discontinued operations as summarized below:

(In millions)	Six Months Ended June 30, 2016
Net sales	\$ 99.6
Cost of goods sold	62.6
Gross profit	37.0
Selling, general and administrative expenses	21.6
Research and development expenses	1.7
Repositioning expenses	22.0
Interest expense and related financing costs	0.7
Other expense, net	3.9
Total costs and expenses	49.9
(Loss) Income from discontinued operations before income taxes	(12.9 )
Benefit from (provision for) income taxes	3.7
(Loss) Income from discontinued operations after income taxes	(9.2 )
Less: Net income attributable to noncontrolling interests	(0.1 )
Net (loss) income from discontinued operations	\$ (9.3 )

In January 2016, GCP completed the sale of \$525.0 million aggregate principal amount of 9.500% Senior Notes due in 2023. GCP used a portion of these proceeds to fund a \$500.0 million distribution to Grace in connection with the Separation and the Distribution.

In February 2016, GCP entered into a credit agreement that provides for new senior secured credit facilities in an aggregate principal amount of \$525.0 million, consisting of term loans in an aggregate principal amount of \$275.0 million maturing in 2022 and of revolving loans in an aggregate principal amount of \$250.0 million maturing in 2021,

which were undrawn at closing. GCP used a portion of these proceeds to fund a \$250.0 million distribution to Grace in connection with the Separation and the Distribution.

Table of Contents

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

We generally refer to the quarter ended June 30, 2017, as the "second quarter," the quarter ended June 30, 2016, as the "prior-year quarter," the quarter ended March 31, 2017, as the "2017 first quarter," the six months ended June 30, 2017, as the "six months," and the six months ended June 30, 2016, as the "prior-year period." See Analysis of Operations for a discussion of our non-GAAP performance measures. Our references to "emerging regions" refer to emerging and developing regions as defined by the International Monetary Fund.

## Results of Operations

## Second Quarter Performance Summary

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

• Net sales increased 10.0% to \$429.5 million.

• Income from continuing operations attributable to Grace was \$43.9 million or \$0.64 per diluted share. Adjusted EPS increased 13.5% to \$0.84 per diluted share.

• Adjusted EBIT increased 8.2% to \$104.0 million.

• Adjusted EBITDA increased 9.5% to \$131.1 million.

## Summary Description of Business

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through our two reportable 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 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 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, including silica-based and silica-alumina-based materials, used in coatings, consumer, industrial, and pharmaceutical applications, as follows:

• Coatings and print media applications, 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/Pharma 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



## Table of Contents

edible oils and beverages; as well as pharmaceutical, life science and related applications including silica-based separation media, excipients and pharmaceutical intermediates.

Chemical Process applications, such as tires and rubber, plastics, 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.

### Global Scope

We operate our business on a global scale with approximately 72% of our annual 2016 sales and 74% of our six months sales to customers located outside the United States. We operate and/or sell to customers in over 60 countries and do business in 30 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 second quarter and six months compared with the corresponding prior-year periods. Please refer to this Analysis of Operations when reviewing this Management's Discussion and Analysis of Financial Condition and Results of Operations. In the table we present financial information in accordance with U.S. GAAP, as well as the non-GAAP financial information described below. We believe that the non-GAAP financial information provides useful supplemental information about the performance of our businesses, improves period-to-period comparability and provides clarity on the information our management uses to evaluate the performance of our businesses. In the table, we have provided reconciliations of these non-GAAP financial measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP. The non-GAAP financial measures should not be considered as a substitute for financial measures calculated in accordance with U.S. GAAP, and the financial results calculated in accordance with U.S. GAAP and reconciliations from those results should be evaluated carefully.

We define Adjusted EBIT (a non-GAAP financial measure) to be income from continuing operations attributable to W. R. Grace & Co. shareholders adjusted for interest income and expense; income taxes; costs related to legacy product, environmental and other claims; 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; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; and certain other 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 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 included in cost of goods sold and the amortization of acquired inventory fair value adjustment.

We define Adjusted Earnings Per Share (EPS) (a non-GAAP financial measure) to be diluted EPS from continuing operations adjusted for costs related to legacy product, environmental and other claims; 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; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; certain other items that are not representative of underlying trends; and certain discrete tax items.

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



Table of Contents

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 legacy product, environmental and other claims; restructuring and repositioning activities; divested businesses; and the effects of acquisitions.

We use Adjusted EBITDA, Adjusted EBIT Return On Invested Capital, Adjusted Gross Margin, and Adjusted EPS as performance measures and may use these measures in determining certain incentive compensation. We use Adjusted EBIT Return On Invested Capital in making operating and investment decisions and in balancing the growth and profitability of our operations.

Adjusted EBIT, Adjusted EBITDA, Adjusted EBIT Return On Invested Capital, Adjusted Gross Margin, and Adjusted EPS 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. These measures may have material limitations due to the exclusion or inclusion of amounts that are included or excluded, respectively, in the most directly comparable measures calculated and presented in accordance with U.S. GAAP and thus investors and others should review carefully the financial results calculated in accordance with U.S. GAAP.

Adjusted EBIT has material limitations as an operating performance measure because it excludes costs related to legacy product, environmental and other claims, 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 and net income attributable to Grace shareholders, measured under U.S. GAAP for a complete understanding of our results of operations.

Table of Contents

Analysis of Operations (In millions, except per share amounts)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Net sales:						
Catalysts Technologies	\$320.5	\$278.4	15.1 %	\$614.3	\$539.0	14.0 %
Materials Technologies	109.0	112.1	(2.8 )%	213.2	214.3	(0.5 )%
Total Grace net sales	\$429.5	\$390.5	10.0 %	\$827.5	\$753.3	9.8 %
Net sales by region:						
North America	\$120.8	\$124.0	(2.6 )%	\$236.5	\$242.9	(2.6 )%
Europe Middle East Africa	163.9	158.4	3.5 %	312.6	300.8	3.9 %
Asia Pacific	115.5	83.1	39.0 %	215.4	155.2	38.8 %
Latin America	29.3	25.0	17.2 %	63.0	54.4	15.8 %
Total net sales by region	\$429.5	\$390.5	10.0 %	\$827.5	\$753.3	9.8 %
Performance measures:						
Adjusted EBIT(A):						
Catalysts Technologies segment operating income	\$101.3	\$87.5	15.8 %	\$182.5	\$165.8	10.1 %
Materials Technologies segment operating income	24.2	28.0	(13.6)%	49.0	48.6	0.8 %
Corporate costs	(18.3 )	(16.3 )	(12.3)%	(34.4 )	(29.5 )	(16.6)%
Certain pension costs(B)	(3.2 )	(3.1 )	(3.2 )%	(6.3 )	(6.2 )	(1.6 )%
Adjusted EBIT	104.0	96.1	8.2 %	190.8	178.7	6.8 %
(Costs) benefit related to legacy product, environmental and other claims	(14.9 )	(6.7 )		(17.0 )	(11.1 )	
Restructuring and repositioning expenses	(5.4 )	(9.4 )		(7.7 )	(23.0 )	
Pension MTM adjustment and other related costs, net	—	0.7		(1.9 )	0.9	
Income and expense items related to divested businesses	(0.7 )	0.1		(1.0 )	(0.2 )	
Third-party acquisition-related costs	—	(2.5 )		—	(2.5 )	
Gain on sale of product line	—	0.7		—	0.7	
Loss on early extinguishment of debt	—	—		—	(11.1 )	
Interest expense, net	(19.5 )	(19.4 )	(0.5 )%	(38.8 )	(41.2 )	5.8 %
(Provision for) benefit from income taxes	(19.6 )	(21.5 )	8.8 %	(37.6 )	(42.7 )	11.9 %
Income (loss) from continuing operations attributable to W. R. Grace & Co. shareholders	\$43.9	\$38.1	15.2 %	\$86.8	\$48.5	79.0 %
Diluted EPS from continuing operations	\$0.64	\$0.54	18.5 %	\$1.27	\$0.68	86.8 %
Adjusted EPS	\$0.84	\$0.74	13.5 %	\$1.52	\$1.35	12.6 %

Table of Contents

Analysis of Operations (In millions)	Three Months Ended June 30,			Six Months Ended June 30,			
	2017	2016	% Change	2017	2016	% Change	
Adjusted performance measures:							
Gross Margin:							
Catalysts Technologies	40.4	% 46.2	% (5.8) pts	39.9	% 44.9	% (5.0) pts	
Materials Technologies	37.4	% 40.6	% (3.2) pts	38.2	% 40.0	% (1.8) pts	
Adjusted Gross Margin	39.6	% 44.6	% (5.0) pts	39.4	% 43.5	% (4.1) pts	
Pension costs in cost of goods sold	(0.2)	)% (0.2)	)% 0.0 pts	(0.4)	)% (0.2)	)% (0.2) pts	
Total Grace	39.4	% 44.4	% (5.0) pts	39.0	% 43.3	% (4.3) pts	
Adjusted EBIT:							
Catalysts Technologies	\$101.3	\$87.5	15.8	% \$182.5	\$165.8	10.1	%
Materials Technologies	24.2	28.0	(13.6)	)% 49.0	48.6	0.8	%
Corporate, pension, and other	(21.5 )	(19.4 )	(10.8 )	)% (40.7 )	(35.7 )	(14.0 )	)%
Total Grace	104.0	96.1	8.2	% 190.8	178.7	6.8	%
Depreciation and amortization:							
Catalysts Technologies	\$21.1	\$17.8	18.5	% \$42.4	\$35.5	19.4	%
Materials Technologies	4.8	4.7	2.1	% 9.5	9.7	(2.1)	)%
Corporate	1.2	1.1	9.1	% 2.3	1.6	43.8	%
Total Grace	27.1	23.6	14.8	% 54.2	46.8	15.8	%
Adjusted EBITDA:							
Catalysts Technologies	\$122.4	\$105.3	16.2	% \$224.9	\$201.3	11.7	%
Materials Technologies	29.0	32.7	(11.3)	)% 58.5	58.3	0.3	%
Corporate, pension, and other	(20.3 )	(18.3 )	(10.9 )	)% (38.4 )	(34.1 )	(12.6 )	)%
Total Grace	131.1	119.7	9.5	% 245.0	225.5	8.6	%
Adjusted EBIT margin:							
Catalysts Technologies	31.6	% 31.4	% 0.2 pts	29.7	% 30.8	% (1.1) pts	
Materials Technologies	22.2	% 25.0	% (2.8) pts	23.0	% 22.7	% 0.3 pts	
Total Grace	24.2	% 24.6	% (0.4) pts	23.1	% 23.7	% (0.6) pts	
Adjusted EBITDA margin:							
Catalysts Technologies	38.2	% 37.8	% 0.4 pts	36.6	% 37.3	% (0.7) pts	
Materials Technologies	26.6	% 29.2	% (2.6) pts	27.4	% 27.2	% 0.2 pts	
Total Grace	30.5	% 30.7	% (0.2) pts	29.6	% 29.9	% (0.3) pts	

Table of Contents

Analysis of Operations (In millions)	Four Quarters Ended	
	June 30, 2017	December 31, 2016
Calculation of Adjusted EBIT Return On Invested Capital (trailing four quarters):		
Adjusted EBIT	\$412.4	\$ 400.3
Invested Capital:		
Trade accounts receivable	265.0	273.9
Inventories	236.5	228.0
Accounts payable	(199.9 )	(195.4 )
	301.6	306.5
Other current assets (excluding income taxes)	35.7	32.0
Properties and equipment, net	749.7	729.6
Goodwill	397.5	394.2
Technology and other intangible assets, net	261.9	269.1
Investment in unconsolidated affiliate	131.9	117.6
Other assets (excluding capitalized financing fees)	31.2	34.9
Other current liabilities (excluding income taxes, legacy environmental matters, accrued interest, and restructuring)	(124.1 )	(144.4 )
Other liabilities (excluding legacy environmental matters)	(111.6 )	(89.3 )
Total invested capital	\$1,673.8	\$ 1,650.2
Adjusted EBIT Return On Invested Capital	24.6 %	24.3 %

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 and Materials Technologies 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 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.

Table of Contents

## Grace Overview

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

## Net Sales and Gross Margin

Sales were \$429.5 million and \$827.5 million for the second quarter and six months compared with \$390.5 million and \$753.3 million for the corresponding prior-year periods. Gross margin was 39.4% and 39.0% for the second quarter and six months compared with 44.4% and 43.3% for the corresponding prior-year periods. Adjusted Gross Margin was 39.6% and 39.4% for the second quarter and six months compared with 44.6% and 43.5% for the corresponding prior-year periods.

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.

Net Sales Variance Analysis	Three Months Ended June 30, 2017 as a Percentage Increase (Decrease) from Three Months Ended June 30, 2016			
	Volume	Price	Currency Translation	Total
Catalysts Technologies	16.2 %	(0.2)%	(0.9 )%	15.1 %
Materials Technologies	(1.8 )%	(0.2)%	(0.8 )%	(2.8 )%
Net sales	11.1 %	(0.2)%	(0.9 )%	10.0 %
By Region:				
North America	(3.2 )%	0.6 %	— %	(2.6 )%
Europe Middle East Africa	5.6 %	0.1 %	(2.2 )%	3.5 %
Asia Pacific	40.3 %	(1.1)%	(0.2 )%	39.0 %
Latin America	19.1 %	(2.8)%	0.9 %	17.2 %

Sales for the second quarter increased 10.0% compared with the prior-year quarter. Higher sales volumes in Catalysts Technologies were primarily due to the 2016 polyolefin catalysts acquisition and organic growth in the existing businesses driven by higher demand in emerging regions. Sales volumes in Materials Technologies were down, primarily driven by lost sales from product lines exited in 2016.

Gross margin decreased 500 basis points to 39.4% for the second quarter. Adjusted Gross Margin decreased 500 basis points to 39.6% for the second quarter. The decreases were primarily due to product and regional mix including the effect of the 2016 polyolefin catalysts acquisition, and higher manufacturing costs.

Table of Contents

Six Months Ended June 30, 2017  
as a Percentage Increase (Decrease)  
from  
Six Months Ended June 30, 2016

Net Sales Variance Analysis	Volume	Price	Currency Translation	Total
Catalysts Technologies	14.7 %	0.3 %	(1.0 )%	14.0 %
Materials Technologies	0.8 %	(0.4)%	(0.9 )%	(0.5 )%
Net sales	10.7 %	0.1 %	(1.0 )%	9.8 %
By Region:				
North America	(3.5 )%	0.9 %	— %	(2.6 )%
Europe Middle East Africa	6.5 %	— %	(2.6 )%	3.9 %
Asia Pacific	39.6 %	(0.5)%	(0.3 )%	38.8 %
Latin America	15.2 %	(0.9)%	1.5 %	15.8 %

Sales for the six months increased 9.8% compared with the prior-year period. Higher sales volumes in Catalysts Technologies were primarily due to the 2016 polyolefin catalysts acquisition and organic growth in the existing businesses driven by higher demand in emerging regions. Sales volumes in Materials Technologies were higher in all regions except for Latin America, offset by the effect of product lines exited in 2016.

Gross margin decreased 430 basis points to 39.0% for the six months from 43.3% for the prior-year period. Adjusted Gross Margin decreased 410 basis points to 39.4% for the six months from 43.5% for the prior-year period. The decreases were primarily due to product and regional mix including the effect of the 2016 polyolefin catalysts acquisition, and higher manufacturing costs.

#### Grace Income From Continuing Operations

Income from continuing operations attributable to Grace was \$43.9 million for the second quarter compared with \$38.1 million for the prior-year quarter. The increase was primarily due to higher segment operating income and lower restructuring and repositioning expenses, partially offset by a higher provision for environmental remediation.

Income from continuing operations attributable to Grace was \$86.8 million for the six months, an increase of 79.0% compared with \$48.5 million for the prior-year period. The increase was primarily due to higher segment operating income, lower restructuring and repositioning expenses, and the 2016 loss on early extinguishment of debt.



Table of Contents

## Adjusted EBIT

Adjusted EBIT was \$104.0 million for the second quarter, an increase of 8.2% compared with the prior-year quarter. The increase was due to business interruption insurance recoveries for lost profits as a result of a customer outage, higher sales volumes in Catalysts Technologies, and higher income from our ART joint venture. The increase was partially offset by unfavorable product and regional mix, higher manufacturing costs and higher operating expenses primarily attributable to a favorable prior year accrual adjustment.

Adjusted EBIT was \$190.8 million for the six months, an increase of 6.8% compared with the prior-year period. The increase was primarily due to higher sales volumes in both segments and business interruption insurance recoveries, partially offset by higher manufacturing costs, unfavorable product and regional mix and higher operating expenses.

## Adjusted EPS

The following table reconciles our Diluted EPS to our Adjusted EPS:

(In millions, except per share amounts)	Three Months Ended June 30,							
	2017				2016			
	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
Diluted earnings per share from continuing operations				\$0.64				\$0.54
Costs (benefit) related to legacy product, environmental and other claims	\$14.9	\$ 5.6	\$ 9.3	0.14	\$6.7	\$ 2.4	\$ 4.3	0.06
Restructuring and repositioning expenses	5.4	2.5	2.9	0.04	9.4	3.4	6.0	0.08
Income and expense items related to divested businesses	0.7	0.3	0.4	0.01	(0.1 )	—	(0.1 )	—
Third-party acquisition-related costs	—	—	—	—	2.5	0.7	1.8	0.03
Gain on sale of product line	—	—	—	—	(0.7 )	(0.3 )	(0.4 )	(0.01 )
Pension MTM adjustment and other related costs, net	—	—	—	—	(0.7 )	(0.1 )	(0.6 )	(0.01 )
Discrete tax items, including adjustments to uncertain tax positions		(0.9 )	0.9	0.01		(3.5 )	3.5	0.05
Adjusted EPS				\$0.84				\$0.74

Table of Contents

(In millions, except per share amounts)	Six Months Ended June 30,							
	2017				2016			
	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
Diluted earnings per share from continuing operations				\$1.27				\$0.68
Costs (benefit) related to legacy product, environmental and other claims	\$17.0	\$6.4	\$10.6	0.15	\$11.1	\$4.1	\$7.0	0.10
Restructuring and repositioning expenses	7.7	3.3	4.4	0.06	23.0	8.1	14.9	0.21
Pension MTM adjustment and other related costs, net	1.9	0.7	1.2	0.02	(0.9 )	(0.2 )	(0.7 )	(0.01 )
Income and expense items related to divested businesses	1.0	0.4	0.6	0.01	0.2	0.1	0.1	—
Loss on early extinguishment of debt	—	—	—	—	11.1	4.1	7.0	0.10
Third-party acquisition-related costs	—	—	—	—	2.5	0.7	1.8	0.03
Gain on sale of product line	—	—	—	—	(0.7 )	(0.3 )	(0.4 )	(0.01 )
Discrete tax items, including adjustments to uncertain tax positions		(0.4 )	0.4	0.01		(17.4)	17.4	0.25
Adjusted EPS				\$1.52				\$1.35

## Adjusted EBIT Return On Invested Capital

Adjusted EBIT Return On Invested Capital for the second quarter was 24.6% on a trailing four quarters basis compared with 24.3% on the same basis as of December 31, 2016.

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.

Table of Contents

Segment Overview—Grace Catalysts Technologies

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

Net Sales—Grace Catalysts Technologies

Sales were \$320.5 million for the second quarter, an increase of 15.1% compared with the prior-year quarter. The increase was due to higher sales volumes (+16.2%), partially offset by unfavorable currency translation (-0.9%) and lower pricing (-0.2%). Higher sales volumes are primarily related to the 2016 polyolefin catalysts acquisition and organic growth in the existing businesses driven by higher demand in emerging regions. Sales volumes of refining catalysts increased compared with the prior-year quarter, primarily in Asia due to new customer acquisition, bid business and penetration of new products. All regions contributed sales volume growth except North America. Sales volumes of specialty catalysts, excluding the acquisition, increased in North America and Asia due to higher demand for polypropylene and polyethylene catalysts compared with the prior-year quarter. Unfavorable currency translation affected both product groups as the U.S. dollar strengthened against multiple currencies, especially the euro, compared with the prior-year quarter.

Sales were \$614.3 million for the six months, an increase of 14.0% compared with the prior-year period. The increase was due to higher sales volumes (+14.7%) and improved pricing (+0.3%), partially offset by unfavorable currency translation (-1.0%). Higher sales volumes are primarily related to the 2016 polyolefin catalysts acquisition and organic growth in the existing businesses driven by higher demand in emerging regions. Sales volumes of refining catalysts increased compared with the prior-year period in all regions except North America due to new customer acquisition, bid business and penetration of new products. Sales volumes of specialty catalysts, excluding the acquisition, increased primarily in Asia due to customer order timing of chemical catalysts and higher demand for polypropylene and polyethylene catalysts compared with the prior-year period. Unfavorable currency translation affected both product groups as the U.S. dollar strengthened against multiple currencies, especially the euro, compared with the prior-year period.

Table of Contents

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

Gross profit was \$129.6 million for the second quarter, an increase of 0.8% compared with the prior-year quarter. Gross margin of 40.4% decreased 580 basis points from 46.2% for the prior-year quarter. The decrease in gross margin was primarily due to product and regional mix, including the effect of the 2016 polyolefin catalysts acquisition, and higher manufacturing costs.

Operating income was \$101.3 million for the second quarter, an increase of 15.8% compared with the prior-year quarter, primarily due to business interruption insurance recoveries, higher sales volumes and higher income from the ART joint venture. The increase was partially offset by the impact of lower gross margins and unfavorable currency translation. The ART joint venture contributed \$6.1 million to operating income, an increase of \$3.5 million compared with the prior-year quarter. Operating margin for the second quarter was 31.6%, an increase of 20 basis points compared with the prior-year quarter.

Gross profit was \$244.9 million for the six months, an increase of 1.3% compared with the prior-year period. Gross margin of 39.9% decreased 500 basis points compared with 44.9% for the prior-year period. The decrease in gross margin was primarily due to product and regional mix, including the effect of the 2016 polyolefin catalysts acquisition, and higher manufacturing costs.

Operating income was \$182.5 million for the six months, an increase of 10.1% compared with the prior-year period, primarily due to business interruption insurance recoveries and higher sales volumes, offset by the impact of lower gross margins and unfavorable currency translation. The ART joint venture contributed \$13.1 million to operating income, an increase of \$3.6 million compared with the prior-year period. Operating margin for the six months was 29.7%, a decrease of 110 basis points compared with the prior-year period.

In January 2017, a Catalysts Technologies customer experienced an explosion and fire resulting in an extended outage. We have confirmed with our third party insurer that we have a valid claim under our business interruption insurance policy for lost profits as a result of the outage. The policy has a \$25 million limit. Given the length of the outage, we expect to receive the full value of the policy by the end of 2017. We have recognized a benefit of \$13.1 million for the six months under this insurance policy of which we have received \$10.4 million in payments from the insurer through June 30, 2017.

As of June 30, 2017, we have a past-due receivable of \$10.9 million (\$10.0 million net of bad debt reserve) from an FCC customer in Venezuela. We are working with the customer to arrange a payment plan. While we believe the net receivable likely will be collected, there is increasing collection risk due to political and economic uncertainties in the country. We will continue to evaluate the collectability of this receivable and will further adjust the reserve if necessary.

Table of Contents

Segment Overview—Grace Materials Technologies

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

Net Sales—Grace Materials Technologies

Sales were \$109.0 million for the second quarter, a decrease of 2.8% compared with the prior-year quarter, including the negative effect (-3.3%) of product lines exited in 2016. The decrease was due to lower sales volumes (-1.8%), unfavorable currency translation (-0.8%) and lower pricing (-0.2%). Sales volumes decreased in all regions except Europe, primarily due to product lines exited in 2016 and delays in pharma fine chemicals orders, partially offset by higher silica volumes.

Sales were \$213.2 million for the six months, a decrease of 0.5% compared with the prior-year period, including the negative effect (-5.5%) of product lines exited in 2016. The decrease was due to unfavorable currency translation (-0.9%) and lower pricing (-0.4%), offset by higher sales volumes (+0.8%).

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

Gross profit was \$40.7 million for the second quarter, a decrease of 10.5% compared with the prior-year quarter. Gross margin was 37.4% compared with 40.6% for the prior-year quarter. The decrease in gross margin was primarily due to higher manufacturing costs, product mix with higher silicas and lower pharma fine chemicals, and regional mix.

.

Table of Contents

Operating income was \$24.2 million for the second quarter, a decrease of 13.6% compared with the prior-year quarter, primarily due to lower gross profit. Operating margin for the second quarter was 22.2%, a decrease of 280 basis points compared with the prior-year quarter.

Gross profit was \$81.4 million for the six months, a decrease of 5.1% compared with the prior-year period. Gross margin of 38.2% decreased 180 basis points compared with 40.0% for the prior-year period. The decrease in gross margin was primarily due to higher manufacturing costs.

Operating income was \$49.0 million for the six months, an increase of 0.8% compared with the prior-year period primarily due to higher sales volumes, offset by higher manufacturing costs and the effect of product lines exited in 2016. Operating margin for the six months was 23.0%, an increase of 30 basis points from the prior-year period.

Corporate Costs

Corporate costs include corporate functional costs and other corporate costs such as professional fees and insurance premiums. Corporate costs for the second quarter were \$18.3 million, an increase of \$2.0 million from the prior-year quarter, primarily due to an unfavorable comparison with a prior year accrual adjustment.

Corporate costs for the six months were \$34.4 million, an increase of \$4.9 million compared with the prior-year period, primarily due to a favorable settlement of a claim in 2016 and an unfavorable comparison to a prior year accrual adjustment.

Defined Benefit Pension Expense

Certain pension costs for the second quarter and six months were \$3.2 million and \$6.3 million compared with \$3.1 million and \$6.2 million for the corresponding prior-year periods.

Interest and Financing Expenses

Net interest and financing expenses were \$19.5 million for the second quarter, an increase of 0.5% compared with the prior-year quarter, primarily due to borrowings on the revolving credit facility. Net interest and financing expenses were \$38.8 million for the six months, a decrease of 5.8% compared with the prior-year period, primarily due to voluntary prepayments related to our term loans in February and March 2016.

Income Taxes

The income tax provision at the U.S. federal corporate rate of 35% for the second quarter and the prior-year quarter would have been \$22.1 million and \$20.8 million, respectively, compared with the recorded provision of \$19.6 million and \$21.5 million, respectively. The income tax provision at the statutory rate of 35% for the six months and the prior-year period would have been \$43.4 million and \$31.8 million, respectively, compared with the recorded provision of \$37.6 million and \$42.7 million, respectively. The primary differences between the tax

Table of Contents

provision at the U.S. statutory rate and the recorded provision for income taxes are the effect of lower tax rates in foreign jurisdictions, share-based compensation deductions, and the impact of state law changes.

We generated U.S. federal tax deductions relating to our emergence from bankruptcy. These deductions generated U.S. federal NOL carryforwards in 2014, 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 generated U.S. federal tax deductions of \$30 million upon payment of the ZAI PD obligation in the 2017 first quarter. (See Note 8.)

We pay cash taxes in foreign jurisdictions and a limited number of states. Income taxes paid in cash were \$31.3 million for the six months, or approximately 25% of income before income taxes. Income tax refunds received for the six months were \$29.7 million. Income taxes paid in cash for the prior-year period, including payments related to the Separation, were \$26.8 million, or approximately 30% of income before taxes. Income tax refunds received for the prior-year period were \$2.3 million.

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 June 30, 2017.

Our principal uses of cash are generally capital investments and acquisitions; working capital investments; compensation paid to employees, including contributions to our defined benefit pension plans and defined contribution plans; the repayment of debt; and the return of cash to shareholders through repurchase of shares and dividends.

On February 5, 2015, we announced that the Board of Directors had authorized a share repurchase program of up to \$500 million. Under this program, during the six months we repurchased 425,673 shares of Company common stock for \$30.0 million. As of June 30, 2017, \$3.9 million remained under this authorization. On February 8, 2017, we announced that the Board of Directors had authorized a new share repurchase program of up to \$250 million.

In the 2016 second quarter, we began to pay a quarterly cash dividend, at an annual rate of \$0.68 per share of Company common stock. On February 8, 2017, we announced that the Board of Directors had approved an increase in the annual dividend rate, to \$0.84 per share of Company common stock, which became effective in the 2017 first quarter. We paid cash dividends of \$28.7 million during the six months.

We believe that the cash we expect to generate during 2017 and thereafter, together with other available liquidity and capital resources, are sufficient to finance our operations, growth strategy, share repurchase program and expected dividend payments, and meet our debt and pension obligations.

**Cash Resources and Available Credit Facilities**

At June 30, 2017, we had available liquidity of \$424.3 million, consisting of \$161.8 million in cash and cash equivalents (\$45.2 million in the U.S.), \$222.3 million available under our revolving credit facility, and \$40.2 million of available liquidity under various non-U.S. credit facilities. The \$300 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 June 30, 2017:

(In millions)	Maximum Borrowing Amount	Available Liquidity	Expiration Date
Germany	\$ 56.8	\$ 13.7	12/31/2017
Other countries	51.3	26.5	Various through 2020
Total	\$ 108.1	\$ 40.2	

## Analysis of Cash Flows

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

(In millions)	Six Months Ended June 30,	
	2017	2016
Net cash provided by (used for) operating activities from continuing operations	\$140.5	\$136.8
Net cash provided by (used for) investing activities from continuing operations	(59.6 )	(291.7 )
Net cash provided by (used for) financing activities from continuing operations	(13.2 )	116.0
Effect of currency exchange rate changes on cash and cash equivalents	3.5	1.9
Increase (decrease) in cash and cash equivalents from continuing operations	71.2	(37.0 )
Increase (decrease) in cash and cash equivalents from discontinued operations	—	44.8
Net increase (decrease) in cash and cash equivalents	71.2	7.8
Less: cash and cash equivalents of discontinued operations	—	(143.4 )
Cash and cash equivalents, beginning of period	90.6	329.9
Cash and cash equivalents, end of period	\$161.8	\$194.3

Net cash provided by operating activities from continuing operations for the six months was \$140.5 million, compared with \$136.8 million for the prior-year period. The year-over-year change in cash flow was primarily due to higher income and lower cash paid for repositioning, and an income tax refund, partially offset by the 2017 first quarter payment of \$30.0 million to fund the PD Trust, higher environmental payments compared with the prior-year period, and better working capital performance in the prior-year period.

Net cash used for investing activities from continuing operations for the six months was \$59.6 million, compared with \$291.7 million for the prior-year period. The year-over-year change in cash flow was primarily due to the 2016 second quarter payment of \$245.1 million for the polyolefin catalysts acquisition, which was slightly offset by \$11.3 million in proceeds from the sale of assets in the same quarter.

Net cash used for financing activities from continuing operations for the six months was \$13.2 million, compared with net cash provided of \$116.0 million in the prior-year period. In 2016, we received a \$750 million distribution of cash from GCP, of which \$600 million was used to pay down our euro and U.S. dollar term loans in the first quarter. Included in net cash provided by (used for) operating activities from continuing operations are legacy product, environmental and other claims paid of \$44.2 million and \$6.0 million, restructuring expenses paid of \$7.2 million and \$10.7 million, and repositioning expenses paid of \$2.8 million and \$31.6 million for the six months and prior-year period, respectively; and cash taxes related to repositioning of \$2.6 million, and cash paid for third-party acquisition-related costs of \$1.2 million for the prior-year period. Included in capital expenditures are \$0.9 million related to repositioning for the prior-year period. These cash flows totaled \$54.2 million and \$53.0 million for the six 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 June 30, 2017, was \$1,603.0 million.



Table of Contents

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

## 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2017	2016	2017	2016
U.S. pay-as-you-go plans	\$1.8	\$1.8	\$3.7	\$3.6
Non-U.S. advance-funded plans	0.2	0.4	0.5	0.6
Non-U.S. pay-as-you-go plans	2.0	2.1	3.6	3.8
Total Cash Contributions	\$4.0	\$4.3	\$7.8	\$8.0

We intend to fund non-U.S. pension plans based upon applicable legal requirements and actuarial and trustee recommendations. We contributed \$4.1 million and \$4.4 million to these plans during the six months and the prior-year period.

## 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 on our products.

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.

## Critical Accounting Estimates

See the "Critical Accounting Estimates" heading in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2016, for a discussion of our critical accounting estimates, incorporated by reference into Item 7 thereof.

## 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 protections 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 results to differ materially from those contained in the forward-looking statements include,

Table of Contents

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 and insurance recoveries; uncertainties related to Grace'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; costs of compliance with environmental regulation; changes in tax laws and regulations; and those additional 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 dates made. We undertake no obligation to release publicly 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, 2016, 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 June 30, 2017, 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 June 30, 2017, 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 below and elsewhere in this Report, 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, 2016, 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 5, 2015, we announced that our Board of Directors had authorized a share repurchase program of up to \$500 million. On February 8, 2017, we announced that the Board of Directors authorized an additional share repurchase program of up to \$250 million. Repurchases under the programs 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 June 30, 2017:

Period	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)(1)
4/1/2017 - 4/30/2017	—	—	—	23.9
5/1/2017 - 5/31/2017	127,265	70.37	127,265	14.9
6/1/2017 - 6/30/2017	156,037	70.78	156,037	3.9
Total	283,302	70.60	283,302	

(1) Approximate dollar value remaining relates only to the currently active share repurchase program. Once that program is complete, Grace expects to begin repurchasing shares under the additional \$250 million authorization.

## Item 4. MINE SAFETY DISCLOSURES

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this Report.

## 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

Table of Contents

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;
- 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
3.1	Amended and Restated Certificate of Incorporation.	Exhibit 3.01 to Form 8-K (filed 2/07/14) SEC File No.: 001-13953
3.2	Amended and Restated By-laws.	Exhibit 3.01 to Form 8-K (filed 1/23/15) SEC File No.: 001-13953
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
95	Mine Safety Disclosure Exhibit	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

---

\* Management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this Report.

Table of Contents

SIGNATURES

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

W. R. GRACE & CO.  
(Registrant)

Date: 7/28/2017 By: /s/ A. E. FESTA

A. E. Festa  
(Chairman and  
Chief Executive Officer)

Date: 7/28/2017 By: /s/ THOMAS E. BLASER

Thomas E. Blaser  
(Senior Vice President and  
Chief Financial Officer)

Date: 7/28/2017 By: /s/ WILLIAM C. DOCKMAN

William C. Dockman  
(Vice President and Controller)

Table of Contents

## EXHIBIT INDEX

Exhibit No.	Description of Exhibit	Location
3.1	<u>Amended and Restated Certificate of Incorporation.</u>	Exhibit 3.01 to Form 8-K (filed 2/07/14) SEC File No.: 001-13953
3.2	<u>Amended and Restated By-laws.</u>	Exhibit 3.01 to Form 8-K (filed 1/23/15) SEC File No.: 001-13953
15	<u>Accountants' Awareness Letter</u>	Filed herewith
31(i).1	<u>Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
31(i).2	<u>Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
32	<u>Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
95	<u>Mine Safety Disclosure Exhibit</u>	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

---

\* Management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this Report.